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AUTHORITY

The authority for the publication of the contents of this handbook is contained in section 84 of the Municipal Act, Chapter 302 and Part II, section 3 of the Municipal Affairs Act, Chapter 303 of the Revised Statutes of Ontario 1980.

EFFECTIVE DATE

This handbook is to become effective on January 1st, 1983 with the following exceptions:

- (1) until a date determined by the Ministry of Municipal Affairs the principle covering the basis of consolidation of the financial statements will not apply to the operations of hydro-electric utilities or municipal hospitals. It will be required, however, that the financial statements, including the auditor's report of such hydro-electric utilities form part of the annual financial statement package of the municipality responsible for the utility;
- (2) where a municipality elects to accrue interest on long term liabilities, such accrual may be phased in over a period determined by council;
- (3) the implementation of accrual accounting for sick leave liabilities incurred under section 208(47) of the Municipal Act Chapter 302 of the Revised Statutes of Ontario 1980, is to be deferred until such time as the Ministry of Municipal Affairs shall determine.

ADDITIONS AND REVISIONS

Accounting is not static. As a result periodic reviews and amendments to this handbook will be required. All additions and revisions to this handbook will be issued and identified as "Handbook revisions".

APPLICATION

The following accounting principles have been developed for application by Ontario municipalities and their local boards and are intended to be used in the preparation of the annual audited consolidated financial statements.

This codification is to deal only with accounting principles that apply in a unique way to Ontario municipalities. The Handbook of the Canadian Institute of Chartered Accountants should be reviewed as an authoritative source of guidance as to views on any matter in which the Municipal Financial Reporting Handbook is silent.

STANDARDS OF DISCLOSURE

Any information required for fair presentation of the results of operations, financial position, and changes in financial position, should be presented in the financial statements including notes to such statements.

Where the accounting treatment or statement presentation does not follow the accounting principles or financial disclosure recommendations, the practice used should be explained in the notes to the financial statements with an indication of the reason why the recommendation concerned was not followed.

Financial statements should be prepared in such form and use such terminology and classification of items that significant information is readily understandable. Items, not significant in themselves, should be grouped with such other items as most closely approximate their nature.

Where the basis of valuation of assets is not self-evident the basis should be explicitly stated.

Recommendations need not be applied to insignificant items. What is "significant" should be judged from the municipality's perspective as to what would be of interest to the readers of the financial statements, and particularly to the inhabitants and ratepayers. It should also be judged in relation to the reasonable prospect of its significance in the making of decisions by the readers of the financial statements. This would include the ratepayers and inhabitants of a municipality, its council, the investment community, and various regulatory bodies and senior level government departments who have an interest in the activities of the municipality.

When applying this principle, consideration should be given, for example, to the dollar value of particular types of revenue and expenditure in relation to total revenue or expenditure and to the nature of the transaction, i.e. in the normal course of municipal activities or one that is unusual to municipal activities.

Every municipality should annually prepare, as a minimum, the following financial statements:

- (a) (i) a Consolidated Statement of Operations
- (ii) a Consolidated Balance Sheet
- (iii) Notes to the Financial Statements
- (b) (i) a Trust Funds Statement of Continuity
- (ii) a Trust Funds Balance Sheet
- (iii) Notes to the Trust Fund Financial Statements

AUDITOR'S REPORT

The consolidated financial statements should be accompanied by an auditor's report in a form that is acceptable to The Canadian Institute of Chartered Accountants, The Institute of Chartered Accountants of Ontario, and meets the requirements of the Ministry of Municipal Affairs.

Audit reports should be prepared for each local board that is not consolidated or when required by legislation or requested by the management of any local board whether it is consolidated or not.

COMPARATIVE STATEMENTS

The financial statements should be prepared on a comparative basis showing as a minimum the figures for the corresponding preceding period, and, where practical, the estimates of the current year.

Where the comparative figures have been reclassified or revised, the change should be disclosed in a note to the financial statements.

ACCOUNTING AND REPORTING CAPABILITIES

The municipal accounting system should make it possible to:

- (a) determine and demonstrate compliance with legal provisions; and
- (b) prepare financial statements that present fairly and with full disclosure the results of operations, and the financial position of the municipality in conformity with generally accepted accounting principles for Ontario municipalities.

BASIS OF ACCOUNTING

Revenues and expenditures should be reported on the accrual basis.

Where a municipality does not accrue interest on long term liabilities, it should report by way of a note to the financial statements the financial effect of the non-accrual of such interest charges on the equity position of the municipality at year end.

Revenues should be recognized in the accounting period in which they become available and measurable.

Expenditures should be recognized in the accounting period in which they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

CHANGE IN ACCOUNTING POLICY

Where there is a choice from among two or more appropriate principles or methods used in their application and a change is made, the new accounting policy should be applied retroactively, except in those circumstances where the necessary financial data is not reasonably determined.

Where a change in an accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes should be restated to give effect to the new accounting policy.

For each change in an accounting policy in the current period, the following information should be disclosed in a note to the financial statements:

- (a) a description of the change;
- (b) the effect of the change in the financial statements for the current period; and
- (c) the effect on municipal equity.

BASIS OF CONSOLIDATION

The financial statements should be consolidated on the basis of the political accountability of the municipal council with respect to the activities carried out by the municipality, its local boards and joint local boards.

Political accountability of the municipal council will not exist where:

- (a) the governing body of an entity is separately elected (e.g. school boards, public utilities commissions and hydro commissions); or
- (b) by virtue of a special or separate Act the entity is not deemed to be a local board (e.g. conservation authority).

A local board is defined under the Municipal Affairs Act as

“ ‘local board’ means a school board, public utility commission, transportation commission, public library board, board of park management, local board of health, board of commissioners of police, planning board, or any other board, commission, committee, body or local authority established or exercising any power or authority under any general or special Act with respect to any of the affairs or purposes, including school purposes, of a municipality or of two or more municipalities or parts thereof.”

Joint local boards should be reported by the municipality that is deemed to have effective control of the joint local board.

Each municipality participating in the activities of the joint local board should by way of a note to the financial statements disclose the amount of any contribution made to the joint local board along with the amounts of liability both real or contingent, that the municipality has or may be required to meet on behalf of the joint local board.

All entities, whether consolidated or not consolidated in the financial statements, should be identified in the notes to the financial statements.

TRANSLATION OF FOREIGN CURRENCY

Assets and liabilities, including long term liabilities, expressed in a foreign currency should be translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. A note to the financial statements is required where the carrying value differs from the translated value at the end of the year.

INVESTMENTS

All investments should be shown at their original cost.

Where market value differs from cost, market value should also be disclosed.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment should be written down to recognize the loss.

A write-down of an investment to reflect a loss in value should not be reversed if there is a subsequent increase in value.

ALLOWANCES

All assets should be reported net of any allowance for the possible decline or loss of value of the asset.

INVENTORIES

Inventories should be reported on the basis of all costs that can be reasonably attributed to it. The basis of valuation of inventories should be clearly stated in the financial statements.

If the method of determining cost has resulted in a figure which does not differ materially from recent cost, the simple term "cost" is considered to be suitable in describing the basis of valuation. Otherwise, the method of determining cost should be disclosed.

Any change in the basis of valuation from that used in the previous period, and the effect on the net revenue for the period, should be disclosed.

PREPAID EXPENSES

Prepaid expenses should be reported on the basis of the unexpired portion of their cost determined on the basis of lapse of time or other basis appropriate to the nature of the prepayment.

CAPITAL OUTLAY TO BE RECOVERED IN FUTURE YEARS

The historical cost and accumulated depreciation of fixed assets should not be reported for municipal purposes. The principal portion of unmatured long term liabilities and capital leases should be reported as capital outlay to be recovered in future years on the consolidated balance sheet.

CAPITAL OUTLAY

Capital outlay includes one or both of two elements:

- (a) capital expenditure; and
- (b) transfers of capital funds to other organizations.

Capital expenditure is defined as any significant expenditure incurred to acquire or improve land, buildings, engineering structures, machinery and equipment used in providing municipal services. It includes vehicles, office furniture and equipment. This expenditure normally confers benefit lasting beyond one year and results in the acquisition of, or extends the life of a fixed asset.

Expenditure on repair or maintenance designed to maintain an asset in its original state is not capital expenditure.

Transfer of capital funds to other organizations is defined as money transferred for capital purposes to local boards, municipal enterprises, hospitals, universities, similar organizations and individuals for which the municipality may incur long term liabilities.

Capital outlay is determined by the nature of the transaction, not by the method of financing. Financing from the sale of debentures, provincial or federal subsidies, reserves or reserve funds, the revenue fund or from whatever source—is entirely irrelevant in determining whether the transaction is a capital expenditure.

CAPITAL LEASES

A capital lease is defined as a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee.

A capital lease is to be reported as part of the capital outlay to be recovered in future years and as a long term liability on the balance sheet.

(See Appendix B)

NET LONG TERM LIABILITIES

The consolidated financial statements should disclose the total debt outstanding as at the date of the balance sheet adjusted to reflect the obligations assumed by or from other municipalities, non-consolidated local boards, school boards, and others.

The capitalized value of the debt incurred as the result of a capital lease agreement is to be included in the total of long term liabilities.

The net long term liabilities as reported on the balance sheet should be supported by way of a note to disclose:

- (a) the total outstanding long term liabilities incurred by the municipality for all purposes including investments in own debentures held by reserve funds of the municipality;
- (b) the total outstanding of all principal charges assumed from other municipalities;
- (c) the total of all principal charges assumed by other municipalities, non-consolidated local boards, school boards, public utilities commissions, hydro commissions and others;
- (d) the total value of all sinking funds and the Ministry of the Environment Debt Retirement Funds that have been accumulated to the date of the balance sheet to retire related long term liabilities;
- (e) the total of all principal charges issued as tile drainage or shoreline property assistance loans assumed by individual ratepayers; and
- (f) a schedule of principal payments in five year intervals from the date of the balance sheet showing also the source of revenues for such payments, e.g., general municipal revenue, benefitting landowners, municipal utilities, etc.

MUNICIPAL EQUITY

The consolidated financial statements should disclose separately the equity position of the municipality as at the date of the balance sheet. Municipal equity should include but is not limited to the following:

- (a) the net revenue or deficit of the municipality and its consolidated local boards that is available to offset or to be added to taxation and/or user charges in the next fiscal year;
- (b) unfinanced capital operations or unexpended capital funds at the end of the year;
- (c) amounts appropriated from net revenue by council and set aside as reserves or reserve funds to meet future anticipated commitments or any other purposes;
- (d) amounts received or amounts required to be set aside as reserve funds as a result of federal or provincial legislation or regulation; and
- (e) amounts received as pre-levies of local improvement charges.

RESERVES

Reserves should be limited to amounts which, though not required to meet a liability or contingency known or admitted or a decline in value which has occurred as at the balance sheet date, have been appropriated from net revenue at the discretion of council.

All increases or decreases in reserves should be reported as appropriations to or from reserves.

Reserves should be shown as part of municipal equity.

Changes in reserves during the period together with a list of the individual reserves with comparative figures should be disclosed by way of a note to the financial statements.

RESERVE FUNDS

A reserve fund should be limited to amounts which have been:

- (a) set aside in a separate account by council for a specific purpose designated by a by-law; or
- (b) required to be set aside for specific purposes as set out in a federal or provincial statute, provincial regulation, or by agreement such as those with subdividers.

All increases or decreases in reserve funds should be reported as appropriations to or from reserve funds.

Reserve funds should be shown as part of municipal equity.

Changes in reserve funds during the period together with a list of the individual reserve funds with comparative figures should be disclosed by way of a note to the financial statements.

CONTINGENCIES

A contingency is defined as an existing condition or situation involving uncertainty as to possible loss or gain to a municipality that will ultimately be resolved when one or more future events occur or fail to occur.

Contingencies would include, but are not limited to, pending or threatened litigation, retroactive wage settlements, and guarantees of long term indebtedness in the name of the municipality but assumed by others.

Contingent Losses

The amount of contingent loss should be accrued in the financial statements by a charge to revenue when both of the following conditions are met:

- (a) it is likely that a future event will confirm that an asset had been impaired or a liability incurred at the date of the financial statements; and
- (b) the amount of the loss can be reasonably estimated.

The existence of a contingent loss at the date of the financial statements should be disclosed in notes to the financial statements when:

- (a) the occurrence of the confirming future event is likely but the amount of the loss cannot be reasonably estimated; or
- (b) the occurrence of the confirming future event is likely and an accrual has been made but there exists an exposure to loss in excess of the amount accrued; or
- (c) the occurrence of the confirming future event is not determinable.

Contingent Gains

Contingent gains should not be accrued in the financial statements.

When it is likely that a future event will confirm that an asset had been acquired or a liability reduced at the date of the financial statements, the existence of a contingent gain should be disclosed in notes to the financial statements.

Note Disclosure

When the existence of a contingent loss, or a contingent gain which has not been accrued, is disclosed in a note to the financial statements, the information should include:

- (a) the nature of the contingency;
- (b) an estimate of the amount of the contingent gain or loss or a statement that such an estimate cannot be made; and
- (c) whether any settlement resulting from the resolution of the contingency is expected to be accounted for as a prior period adjustment or as a charge or credit to revenue of the period in which the settlement occurs.

SUBSEQUENT EVENTS

Financial statements should be adjusted when events occurring between the date of the financial statements and the date of their completion provide additional evidence relating to conditions that existed at the date of the financial statements.

Adjustments of the financial statements for subsequent events is not appropriate if such events do not relate to conditions existing at the financial statement date. To reflect the effect of such events would not be consistent with the concept that a balance sheet represents the financial position at the financial statement date.

Financial statements should not be adjusted for, but disclosure should be made of, those events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements but:

- (a) cause significant changes to assets or liabilities in the subsequent period; or
- (b) will, or may, have a significant effect on the future operations.

Disclosure of a subsequent event that does not require adjustment of the financial statements should include:

- (a) a description of the nature of the event; and
- (b) an estimate of the financial effect, when practicable, or a statement that such an estimate cannot be made.

REPORTING OF REVENUES AND EXPENDITURES

The financial statements should report gross revenues and gross expenditures.

For the purposes of the Consolidated Statement of Operations, the term revenue shall include proceeds from the issuance of long term liabilities.

The netting of revenues and expenditures is appropriate only for charges for long term liabilities issued by the municipality but assumed by other bodies which are not consolidated.

Lower tier municipalities should report the amounts received or receivable on behalf of an upper tier municipality or school board as a note to the financial statements or as a reduction of revenue.

Amounts levied and recovered with respect to debentures issued under the Tile Drainage Act or the Shoreline Property Assistance Act should be reported only as a note to the financial statements and should not be included as either revenues or expenditures in the financial statements.

REDUCTION OF TAXATION REVENUE

Taxation revenue that is reduced or written off due to a change in the assessment base should be reported under one of the following methods:

- (a) where the amount reduced or written off has been levied in the current reporting year and would normally be included as part of the total taxation revenue for the year, the amount reduced or written off should be subtracted from the total taxation revenue for the year; and
- (b) where the amount reduced or written off has been levied in a prior period or periods, the reduction or write-off where it has not been provided for by an allowance and where it is material should be treated as a prior period adjustment. In those instances where no allowance has been provided and the amounts are not material, the amounts to be reduced or written off should be treated as an expenditure of the current year.

All other taxation revenue that is reduced or written off as a result of a decision of council, regardless of when the tax was levied, should be reported as an expenditure of the current year.

PRIOR PERIOD ADJUSTMENTS

Prior period adjustments should include only adjustments which have all four of the following characteristics:

- (1) are specifically identified with and directly related to the municipal activities of particular prior periods;
- (2) are not attributable to economic events occurring subsequent to the date of the financial statements for such prior periods;
- (3) depend primarily on decisions or determinations by persons other than appointed or elected officials of the municipality; and
- (4) could not be reasonably estimated prior to such decisions or determinations.

Prior period adjustments should be excluded from the determination of net revenue (or deficit) for the current period and applied retroactively to the net revenue (or deficit) after extraordinary items of the periods to which they relate.

The financial statements of prior periods that are presented for comparative purposes should be restated to give effect to a prior period adjustment.

When there has been a prior period adjustment in the current period, the following information should be disclosed in a note to the financial statements:

- (a) a description of the prior period adjustment;
- (b) the effect of the prior period adjustment on the financial statements of the current and prior periods; and
- (c) the fact that the financial statements of prior periods that are presented have been restated.

PRIOR PERIOD ERRORS

The correction in the current period of an error in prior period financial statements should be accounted for retroactively. The financial statements of all prior periods presented for comparative purposes should be restated as necessary.

Where there has been a correction identified in the current period of an error in prior period financial statements, the following information should be disclosed in a note to the financial statements:

- (a) a description of the error;
- (b) the effect of the correction of the error on the financial statements of the current and prior periods; and
- (c) the fact that the financial statements of prior periods that are presented have been restated.

EXTRAORDINARY ITEMS

Extraordinary items should include only gains, losses, and provisions for losses which, by their nature, are not typical of the normal activities of the municipality, are not expected to occur regularly over a period of years and are not considered as recurring factors in any evaluation of the ordinary operations of the municipality.

Extraordinary items, as distinct from prior period adjustments, should be disclosed separately on the Consolidated Statement of Operations in such a manner that users of the statement may be able to determine the nature of the occurrences giving rise to the extraordinary items.

Each extraordinary item should be shown separately and its nature described. Items resulting from events and transactions of a similar nature may be shown in the aggregate and dissimilar items should be shown separately.

CONSOLIDATED BALANCE SHEET

The Consolidated Balance Sheet is to report the financial position of the municipality including the revenue fund, reserves, reserve funds, and the capital fund together with the assets and liabilities of such local boards, municipal enterprises, and utilities as required under the general accounting principle of consolidation.

Assets, liabilities and residual balances for trust and sinking funds are not to be consolidated.

For the purpose of this statement, accounts receivable and accounts payable between consolidated funds and entities are to be eliminated with the exception of loans or advances between the reserve funds and other funds of the municipality.

Assets are to be segregated between unrestricted and restricted so as to identify those funds which are available for current purposes from those which have been or are required to be set aside for specific purposes.

Within these categories assets are to be arranged in order of their liquidity.

Liabilities are to be arranged in order of liquidation.

In those instances where an asset of a reserve fund does not meet the requirements of the Trustee Act, a note to the financial statements is required.

CAPTION CONTENT

ASSETS

Unrestricted and restricted

Cash

- all cash including bank and other deposits that are available on demand.
- cash in foreign currencies is to be converted into Canadian dollars at the exchange rate in effect at the date of the balance sheet.

Investments

- all investments held by the municipality including those investments in its own debentures or notes.
- all investments shall be shown at cost (market value is also to be disclosed in the notes to the financial statements).
- investments in foreign currency are to be converted to Canadian dollars at the rate of exchange in effect at the date of the balance sheet.

Taxes receivable

- the balance of outstanding taxes including those items that have been added to the tax roll, such as utilities arrears, drainage charges, local improvement charges, and the accumulated penalties and interest charges against such taxes, less any allowance for uncollectible taxes.
- the balance of the tax sale or tax registration account, less any allowance for loss on sales.
- includes outstanding balances for the recovery of tile drainage and shoreline property assistance loans.

User charges receivable

- user charges receivable including sewer and water, transit, licences and permits, rents, concessions and franchises, the sale of goods or services to other governments, school boards and other municipalities, and other direct user charges, less any allowance for uncollectible accounts.

Accounts receivable

- amounts receivable for goods or services, including amounts receivable from other governments for the sale of goods or services arising during the normal course of business, less any allowance for uncollectible accounts.
- amounts receivable from any department or agency of the Government of Canada for such items as subsidies, payments in lieu of taxes, less any allowance for uncollectible accounts.
- amounts receivable from any ministry or agency of the Province of Ontario for such items as subsidies, payments in lieu of taxes, sales tax rebates, less any allowance for uncollectible accounts.

Other current assets

- amounts set up as inventories.
- include any amounts set up as prepaid operating expenses.
- all funds held on behalf of the municipality for repairs, renewals and contingencies by the Ministry of the Environment.
- amounts set up as underlevies with respect to the region (county) or school boards.

Long term receivables

- any long term receivable.

Capital outlay to be recovered in future years

- capital expenditures and capital transfers to the extent that with the approval of the Ontario Municipal Board (or private legislation) they have been financed from the issue of long term liabilities.
- the total of capital outlay to be recovered in future years, plus or minus any loss or gain on foreign exchange at the balance sheet date, equals the total of net long term liabilities.

Include here:

- works under the Local Improvement Act, the Drainage Act and section 218 of the Municipal Act, where Ontario Municipal Board approval has been obtained for long term debt which has been issued. Both the landowners' share and the municipality's share that have Ontario Municipal Board approval for the issue of debentures should be reflected here.
- intangible assets for which long term liabilities have been incurred, such as capital grants to universities and hospitals.
- capitalized lease agreements.
- sewage works and water works constructed by the Ministry of the Environment on behalf of the municipality under a construction and operation agreement, but not a service agreement.

Do not include here:

- work in progress and other capital expenditures and capital transfers to be met from the proceeds of long term liabilities or from the revenue fund within the term of council are to be reported as part of municipal fund balances.
- amounts transferred to unconsolidated entities are not reported in these financial statements.
- amounts transferred to landowners under the Tile Drainage Act and the Shoreline Property Assistance Act.

Loss (gain) on foreign exchange

- add (deduct) the loss (gain) on the rate of exchange prevailing when the liability was incurred and the rate at the balance sheet date.

LIABILITIES

Temporary loans

- include short term borrowing pending receipt of revenues, temporary financing for capital purposes, and bank overdrafts.

Accounts payable and accrued liabilities

- trade accounts payable, payroll deductions, holdbacks and accrued liabilities for goods and services received before the year end including accrued vacation pay.
- amounts payable to the Government of Canada, the Province of Ontario and to other municipalities.
- amounts payable to non-consolidated local boards, municipal enterprises, utilities, trust funds and sinking funds.
- amounts payable to school boards.
- amounts payable to the region (county).

Other liabilities

Include here any other liabilities such as

- special charges commuted.
- other deferred and restricted revenues, such as prepaid rentals and deposits.
- overlevies with respect to region (county) and school boards.

Net long term liabilities

- net long term liabilities are the total debt incurred adjusted to reflect the obligations assumed by or from other municipalities, non-consolidated local boards, school boards, and others.
- investments in the municipality's own debentures held in the consolidated funds are not to be eliminated.
- the total of net long term liabilities equals the total of capital outlay to be recovered in future years.
- net long term liabilities are to be reported at par value, in Canadian dollars, at the rate of exchange prevailing at the balance sheet date.

The balance of net long term liabilities is to be calculated as follows:

- long term liabilities incurred by the municipality including those incurred on behalf of other municipalities, non-consolidated local boards, municipal enterprises, utilities, school boards, and others;
- **add** long term liabilities incurred by other municipalities and assumed by the reporting municipality;
- **add** the capitalized value of the debt acquired under a capital lease agreement;
- **deduct** long term liabilities incurred by the reporting municipality and assumed by others including other municipalities, school boards and non-consolidated local boards such as public utilities commissions and hydro commissions;
- **deduct** long term liabilities for tile drainage and shoreline property assistance loans; and
- **deduct** the total value of sinking funds and the balance in the Ministry of the Environment Debt Retirement Fund.

Fund balances at the end of the year

Include here:

- accumulated net revenue (deficit) of the municipality and its consolidated local boards, municipal enterprises, and utilities that is available to reduce or to be added to taxation or user charges in the next fiscal year;
- unfinanced capital outlay; and
- unexpended capital financing including a prepaid capital receipt or prepaid capital grant;
- amounts set aside for specific purposes such as reserves or reserve funds created by council or as required by legislation, regulation or agreement;
 - by council includes reserves and reserve funds under sections 164 and 165 of the Municipal Act; and
 - by legislation, regulation, or agreement includes cash payments made by subdividers in lieu of lands dedicated for park purposes under section 50(11) of the Planning Act, 1983 and by subdividers for a proposed subdivision of land under section 166 of the Municipal Act.

CONSOLIDATED STATEMENT OF OPERATIONS

The Consolidated Statement of Operations is to report the operations and equity balances of the municipality including the revenue fund, capital funds, and the operations of such local boards and joint local boards as required under the general accounting principles for consolidation and for the reporting of revenues and expenditures. Separate supporting schedules may be prepared for the revenue, capital and reserve fund transactions.

That portion of capital transactions that have been or are to be financed through the incurrence of long term liabilities are to be reported in this statement.

Revenues are to be classified by source, current expenditures by function, and capital expenditures by function or by activity e.g. parks, arenas, etc. The number of individual items to be disclosed should be based solely on the principle to disclose significant information in a meaningful way.

For the purpose of this statement, interfund sources of financing and expenditures are to be eliminated with the exception of interest income and expenditures arising from loans or advances between the reserve funds and other funds of the municipality.

The reporting by lower tier municipalities of the amounts received or receivable in respect to upper tier municipalities and school boards should follow one of the following two methods:

- (1) include the amounts in the appropriate categories of sources of financing followed by a reduction of the total of the amounts included; or
- (2) exclude the amounts from the statement.

CAPTION CONTENT

SOURCES OF FINANCING

Taxation and user charges

Taxation

- all revenues from the imposition of taxation including those levied by a mill rate on assessment, local improvements, special charges, payments in lieu of taxes, and telephone and telegraph taxation.
- total taxation should be segregated into residential and farm, commercial, industrial and business, and payments in lieu of taxes from other governments.
- includes prelevies for local improvements.
- taxation revenues that are reduced or written off are to be reported as required under the principle for reduction of taxation revenue.

User charges

- all revenues from user charges including sewer and water, transit, licences and permits, rents, concessions and franchises, the sale of goods or services to other governments, school boards and other municipalities, and other direct user charges.
- excludes those charges which are essentially flow throughs, such as charges to landowners for tile drainage and shoreline property assistance loans.

Grants

- all revenues in the form of grants from other governments including federal, provincial and municipal.

Other

- all revenue from other sources including investment income, penalties and interest.
- contributions, such as impost and lot levies, received from developers for the provision of municipal services for subdivisions.
- excludes net appropriations from reserves and reserve funds and the net proceeds from the issue of long term liabilities.
- prepaid special charges.

Proceeds from the issue of long term liabilities

- amounts received from the issue including premiums, and excluding discounts and underwriting cost.
- if received in a foreign currency the amount is to be converted into Canadian currency at that date.
- excludes transactions for long term liabilities of unconsolidated entities except to the extent that debt charges are recovered from general taxation.
- excludes transactions which are essentially flow through such as tile drainage or shoreline property assistance loans.

Net appropriations from or to reserves and reserve funds

- all revenues and expenditures of reserves and reserve funds are to be included in the Consolidated Statement of Operations.
- the amounts reported here represent the net change for the year in reserves and reserve funds.

- the creation or increase of a reserve should only be reported as appropriations to reserves on the Consolidated Statement of Operations and not as an expenditure on that statement.
- the decrease of a reserve should only be reported as appropriations from reserves on the Consolidated Statement of Operations. The incurrence of the actual expenditure for which the reserve was set up should be reported as an expenditure for current operations or capital on the statement at that time. A decrease which represents excess requirements of the reserve can only be reported as an appropriation from reserves.
- where the increase and decrease of a reserve occur in the same year, the appropriations should be reported net.
- the creation or increase of a reserve fund should only be reported as appropriations to reserve funds on the Consolidated Statement of Operations and not as an expenditure on that statement. Specific revenues received from the creation or increase of a reserve fund should be reported as a source of financing on the Consolidated Statement of Operations at that time.
- the decrease of a reserve fund should only be reported as appropriations from reserve funds on the Consolidated Statement of Operations. The incurrence of the actual expenditure for which the reserve fund was set up should be reported as an expenditure for current operations or capital on the statement at that time. A decrease which represents excess requirements of the reserve fund can only be reported as an appropriation from reserve funds.
- where the increase or decrease of a reserve fund occur in the same year, the appropriations should be reported net.

Municipal fund balances at the beginning of the year

- the beginning of the year surplus balances should be reported as sources of financing; deficits should be reported as a negative source.
- the total should as a minimum be segregated into its two components
 - to be offset by or recovered from taxation or user charges in the current year.
 - unapplied capital receipts or capital operations not yet permanently financed.
- where practical, the balance with respect to the capital operations should be segregated into its three components in the statement or in the notes to the financial statements.
 - unapplied capital receipts.
 - expenditures to be recovered from a future issue of a long term liability.
 - to be recovered from taxation or user charges in a subsequent year(s).

APPLIED TO

Current operations

- all current expenditures are to be reported by function or by subfunction, as set out in Appendix A.
- excludes those expenditures for debt charges which are essentially flow throughs such as debt charges for tile drainage and shoreline property assistance loans.
- excludes those expenditures which are capital in nature.

Capital

- all capital expenditures or outlays are to be reported by function or activity.
- includes transfer of sources of capital financing to those non-municipal organizations such as universities and hospitals.
- excludes transactions for long term liabilities of unconsolidated entities except to the extent that debt charges are recoverable from general taxation.
- excludes transactions which are essentially flow throughs as described earlier.

Municipal fund balances at the end of the year

- the same disclosure is recommended as that for the beginning balances, except that the balances should be reported as "applied to."

TRUST FUNDS STATEMENT OF CONTINUITY AND BALANCE SHEET

These statements are to report only those funds which are held in trust or on behalf of the municipality together with the trust funds of all local boards where their operations are consolidated. Each trust fund must be identified and reported separately in the format illustrated in Section 4005.

CAPTION CONTENT

STATEMENT OF CONTINUITY

Balance at the beginning of the year

- the fund balance at the end of the previous year.

Capital receipts

- contributions received which are applicable to the capital portion of the fund.

Interest earned

- interest received or receivable from the investments of the fund.

Other revenue

- the aggregate of other revenue earned by the fund.

Expenditure

- specify any expenditures of the funds.

Balance at the end of the year

- the fund balance at the end of the year.

BALANCE SHEET

Cash

- bank balances and other deposits available on demand.

Investments

- specify all investments of the fund providing both cost and market value.

Other

- specify assets of the fund other than cash and investments.

Liabilities

- the liabilities of the fund classified as accounts payable and accrued liabilities and other.

Balances

- the balance of the fund classified where appropriate by capital and income.

Notes

- see Section 4004

NOTES TO THE FINANCIAL STATEMENTS

Notes to the financial statements are useful for the purpose of clarification or further explanation of the items in the financial statements. Notes have the same significance as if the information or explanations were set forth in the body of the statements themselves.

Specific notes required

1. Accounting policies

Notes are required to disclose the accounting policies with respect to:

(a) Basis of consolidation

- specifically describe the extent to which the operations, assets and liabilities of the municipality have been consolidated as required under the general accounting principle for consolidation.
- included are its reserves, reserve funds, capital fund, local boards, joint local boards, municipal enterprises, and utilities identifying those which are and those which are not consolidated or the extent to which they are consolidated.
- specifically disclose that the assets and liabilities, and the revenues and expenditures for school boards, the region (county), and trust funds are not consolidated.

(b) Basis of accounting

- specify that the financial statements have been prepared using the accrual basis of accounting and briefly describe what that means.
- disclose that historical cost and accumulated depreciation for fixed assets are not reported for municipal purposes.
- describe briefly the use and meaning of the term "Capital outlay to be recovered in future years".

(c) Failure to comply with accounting policies

- specify the accounting policy(ies) which has (have) not been applied in the financial statements.
- disclose the amount of the resulting impact(s) on the balance of municipal equity.

2. Operations of school boards and the region (county)

- further to the note on the basis of consolidation disclose the sources of revenues, the amounts of requisitions, and the balances of overlevies (underlevies) at the beginning and end of the year.

3. Contributions to unconsolidated joint local boards

- further to the note on the basis of consolidation, disclose that the operations, assets and liabilities of joint local boards are not consolidated.
- disclose the amount of the municipality's contribution to the joint local board which is included in the Consolidated Statement of Operations.
- disclose also the municipality's share of the accumulated surplus (or deficit) at the end of the year with comparative figures, and of the amounts of liability, real or contingent, that the municipality may be required to meet.

4. Trust funds

- further to the note on the basis of consolidation, disclose the total amount of the assets under administration.

5. Investments

- describe the basis of valuation and the market value at the end of the year.

6. Pension agreements

- disclose details of the OMERS pension plan which include:
 - a description of the plan, and
 - the contribution to the plan for current services in the current year and charged as an expenditure.
- disclose details of other pension plans which include:
 - a description of the plan;
 - details of the latest actuarial evaluation;
 - valuation of the plan assets and the basis of valuation;
 - the obligation of the plan and the basis of the calculation;
 - basis of the amortization of the difference between total assets and total obligations;
 - the amount charged against current operations, which is the summation of:
 - current service accrual;
 - interest on accrued pension benefit obligation;
 - estimated earnings on pension plan assets;
 - amortization of the initial difference between expense and funding; and
 - amortization of experience (gains) losses.
 - special treatment of the accumulated difference between total expense and total funding required by municipalities.
- disclose the amount of the liability of the municipality and its local boards for past service provision, the extent to which this has been funded in the current year and the total to date, and the basis of the funding plan.

7. Liability for vested sick leave benefits

- disclose the liability of the municipality and its local boards for unused sick leave benefits which have vested and which could be taken in cash by terminating employees. The municipality's policy for providing for this liability should be disclosed together with details of the funding plan, the amount provided for in the current year and the accumulated provision at the end of the year.
- disclose the amount paid to employees who left the municipality's employment during the current and preceding year and the anticipated payments over the next five years to employees who are eligible to retire.

8. Net long term liabilities

- disclose the long term liabilities incurred and outstanding at the end of the year and reconcile this amount with the net long term liabilities reported on the Consolidated Balance Sheet.
- disclose separately those amounts to be recovered from general municipal revenues, benefitting landowners and consolidated municipal entities.
- disclose the amounts in five year intervals of principal payments to be made on the outstanding long term liabilities.
- where any outstanding long term liability is payable in a foreign currency, a note is required to disclose the amount of the liability, the currency in which it is payable and the basis of translation into Canadian funds.

When the carrying value differs from the liability translated at the rate of exchange prevailing at the end of the year, the amount of any significant differences should be disclosed.

- exclude those outstanding long term liabilities for those local boards, municipal enterprises and utilities whose operations are not consolidated unless the debt charges are to be recovered from general taxation.
- exclude those outstanding long term liabilities assumed by other municipalities and those issued as tile drainage and shoreline property assistance loans which are essentially flow throughs.
- in agreement with the amount reported as capital outlay to be recovered in future years.
- state that the Ontario Municipal Board (or private legislation) has or has not approved the long term financing which has occurred and is outstanding at the end of the year.
- disclose amount of contingent long term liabilities issued in the name of the municipality and assumed by others.

9. Municipal fund balances at the end of the year

- distinguish between amounts to be included as revenue (expenditure) in determining next year's taxation or user charges, and those amounts restricted in their use by council, or by legislation, regulation, or agreement.
- provide necessary details for those amounts which are related to benefitting landowners, rather than to all the ratepayers in the municipality.
- report the basis of funding of unfinanced capital outlay which includes taxation or user charges, and pending issues of long term liabilities.
- state that the Ontario Municipal Board (or private legislation) has or has not approved the pending issue(s) of long term liabilities, and for those commitments to be financed from revenues beyond the term of council.

10. Reserves and reserve funds

- distinguish between amounts set aside by council from those required by legislation, regulation, or agreement.
- list individual reserve and reserve fund balances with comparative figures.
- disclose in summary form the changes in reserve and reserve fund balances.

11. Charges for net long term liabilities

- disclose the amount of principal and interest charges on net long term liabilities and the extent to which they are reflected in these statements.

12. Contingent liabilities

- disclose those contingent liabilities not addressed under note 8.

13. Non-accrual of interest on long term liabilities

- disclose the financial effect of the non-accrual of interest on long term liabilities on the equity position at year end.

14. Contractual obligations

- disclose contracted obligations and commitments that are abnormally large in relation to the usual operations of the municipality.
- includes charges from the Ministry of the Environment for MOE operated and/or owned sewer and water systems.

The following other notes should be provided as required:

15. (a) **Extraordinary items**

- disclose the effect and nature of the occurrences of individual items where separate disclosure on the Consolidated Statement of Operations is not practical.
- items resulting from events and transactions of a similar nature may be shown in the aggregate.
- to be included in the determination of the surplus (deficit) for the year.

(b) **Prior period adjustments or errors**

- restate prior year's figures.
- disclose the nature of the individual adjustment or error, its effect on prior year's statements, and that comparative prior period amounts in the financial statements have been restated.

(c) **Changes in accounting policy**

- disclose the nature of the change, its effect on the current year's financial statements including the effect on the municipal equity.

(d) **Comparative figures**

- disclose the amount by which the prior year's comparative figures have been restated for
 - prior period adjustments;
 - prior period errors; and
 - changes in accounting policy.

(e) **Subsequent events**

- disclose nature of the events and the financial effect of such event on the financial statements.
- where appropriate, disclose that an estimate of the effect cannot be made.

(f) **Budget figures**

- provide a note where budget figures provided are not directly comparable with the current year's actual amounts on the Consolidated Statement of Operations.
- provide a note to explain why budget figures have not been provided.

(g) **Public liability coverage**

- where the municipality is substantially self-insured for all or a portion of the risk, disclose:
 - amounts of deductibility or lack of excess insurance where substantially more than normal coverage;
 - amounts and nature of the funding provided for self insurance;
 - claims settled during the year; and
 - commentary on unsettled claims.
- where the municipality has coverage through a reciprocal insurance exchange, amounts of deductibility or lack of excess insurance, where substantially more than normal coverage;
 - amount and nature of the funding provided;
 - claims settled during the year; and
 - commentary on unsettled claims.

NOTES TO THE TRUST FUNDS FINANCIAL STATEMENTS

Notes to the financial statements are useful for the purpose of clarification or further explanation of the items in the financial statements. Notes have the same significance as if the information or explanations were set forth in the body of the statements themselves.

Specific notes required

1. Accounting policies

Notes are required to disclose the accounting policies with respect to:

Basis of accounting

- state whether the cash or accrual basis of accounting or a combination of both is used.
- briefly describe what this means, including the recognition of revenues and expenditures.
- state the basis of accounting and reporting of fixed assets if applicable, or if charged to the statement of continuity in the year of acquisition.
- state the basis of accounting and reporting of investments.
- may include specific reference to the Ontario Home Renewal Program.
- any other policies of significance to individual trust funds.

2. Ontario Home Renewal Program

- (a) describe the nature of the program.
- (b) describe the basis of accounting and reporting of loans receivable under the program.

3. Investments

- describe the basis of valuation for the amounts reported on the Balance Sheet.
- state the market value of these investments.

SUPPLEMENTARY SCHEDULES

The preparation of supplementary schedules is not a mandatory requirement of the Municipal Financial Reporting Handbook.

Where supplementary schedules are prepared, such schedules should reflect compliance with the accounting principles and disclosure guidelines set out in the Handbook.

**Consolidated Balance Sheet
As at December 31, 19x4**

ASSETS	19x4	19x3
Unrestricted	\$	\$
Cash	XX	XX
Investments (note 5)	XX	XX
Taxes receivable	XX	XX
User charges receivable	XX	XX
Accounts receivable	XX	XX
Other current assets	XX	XX
Long term receivables	XX	XX
	<u>XX</u>	<u>XX</u>
Restricted		
Cash	XX	XX
Investments (note 5)	XX	XX
Accounts receivable	XX	XX
Other current assets	XX	XX
Long term receivables	XX	XX
Investment in own debentures	XX	XX
	<u>XX</u>	<u>XX</u>
Capital outlay financed by long term liabilities and to be recovered in future years (note 1(b))	XX	XX
Add(deduct)loss(gain) on foreign exchange (note 8(c))	XX	XX
	<u>XX</u>	<u>XX</u>
	<u>XX</u>	<u>XX</u>
LIABILITIES		
Temporary loans	XX	XX
Accounts payable and accrued liabilities	XX	XX
Other current liabilities	XX	XX
	<u>XX</u>	<u>XX</u>
Net long term liabilities (note 8)	XX	XX
FUND BALANCES AT THE END OF THE YEAR		
To be used to offset (or to be recovered from) taxation or user charges in 19x5 (note 9)	XX	XX
Unexpended capital financing (or capital operations not yet permanently financed) (note 9)	XX	XX
Reserves (note 10)	XX	XX
Reserve funds (note 10)	XX	XX
	<u>XX</u>	<u>XX</u>

The accompanying notes are an integral part of this financial statement

Consolidated Statement of Operations
For the year ended December 31, 19x4

SOURCES OF FINANCING:	Budget 19x4 \$	Actual 19x4 \$	Actual 19x3 \$	APPLIED TO:	Budget 19x4 \$	Actual 19x4 \$	Actual 19x3 \$
Taxation and user charges				Current operations (notes 3, 11, 13, 14, 15 and 16)			
Residential and farm taxation	XX	XX	XX	General government	XX	XX	XX
Commercial, industrial and business taxation	XX	XX	XX	Protection to persons and property	XX	XX	XX
Taxation from other governments	XX	XX	XX	Transportation services	XX	XX	XX
User charges	XX	XX	XX	Environmental services	XX	XX	XX
				Health services	XX	XX	XX
Grants				Social and family services	XX	XX	XX
Government of Canada	XX	XX	XX	Recreation and cultural services	XX	XX	XX
Province of Ontario	XX	XX	XX	Planning and development	XX	XX	XX
Other municipalities	XX	XX	XX	Other	XX	XX	XX
					XX	XX	XX
Other							
Contributions from developers	XX	XX	XX	Capital			
Investment income	XX	XX	XX	The ABC community centre	XX	XX	XX
Sale of land	XX	XX	XX	Road resurfacing	XX	XX	XX
Other	XX	XX	XX	Grant to XYZ hospital	XX	XX	XX
				Road construction vehicles	XX	XX	XX
Deduct: Amounts received or receivable for Region (County) and school boards (note 2)	(XX)	(XX)	(XX)	Sidewalk construction	XX	XX	XX
				Land	XX	XX	XX
Proceeds from the issue of long term liabilities	XX	XX	—	Office furniture and equipment	XX	XX	XX
Extraordinary gain	—	XX	—		XX	XX	XX
Net appropriations from reserves and reserve funds	—	—	XX	Extraordinary loss	—	XX	XX
				Net appropriations to reserves and reserve funds	XX	XX	—
MUNICIPAL FUND BALANCES AT THE BEGINNING OF THE YEAR (note 9)				MUNICIPAL FUND BALANCES AT THE END OF THE YEAR (note 9)			
To be used to offset (or to be recovered from) taxation or user charges	XX	XX	XX	To be used to offset (or to be recovered from) taxation or user charges	—	XX	XX
Unexpended capital financing (or capital operations not yet permanently financed)	XX	XX	XX	Unexpended capital financing (or capital operations not yet permanently financed)	XX	XX	XX
Total financing available during the year	XX	XX	XX	Total applications during the year	XX	XX	XX

The accompanying notes are an integral part of this financial statement

**SUGGESTED WORDING TO THE REQUIRED NOTES
TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 19X4

1. Accounting Policies

The consolidated financial statements of the Corporation (municipality) are the representation of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgements.

(a) Basis of Consolidation

- (i) These consolidated statements reflect the assets, liabilities, sources of financing and expenditures of the revenue fund, capital fund, reserve funds and reserves and include the activities of all committees of council and the following boards, municipal enterprises and utilities which are under the control of council:

All interfund assets and liabilities and sources of financing and expenditures have been eliminated with the exception of loans or advances between reserve funds and any other fund of the municipality and the resulting interest income and expenditures.

(ii) Non-Consolidated Entities

The following local boards, joint local boards, municipal enterprises and utilities are not consolidated:

OR

There are no non-consolidated entities.

(iii) Accounting for Region (County) and School Board Transactions

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards, and the Region (County) of _____ are not reflected in the municipal fund balances of these financial statements. Overlevies (underlevies) are reported on the Consolidated Balance Sheet as "other current liabilities" ("other current assets").

(iv) Trust funds and their related operations administered by the municipality are not consolidated, but are reported separately on the Trust Funds Statement of Continuity and Balance Sheet. (If applicable add: The municipality has no trust funds.)

(b) Basis of Accounting

Two versions of the note for the Basis of Accounting are provided to recognize the reporting option with respect to the accrual or nonaccrual of interest on long term liabilities.

(b) Basis of Accounting (accrual)

(i) Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of principal charges on long term liabilities which are charged against operations in the periods in which they are paid.

(ii) The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(iii) Fixed Assets

The historical cost and accumulated depreciation for fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Consolidated Statement of Operations in the year of acquisition.

(iv) Capital Outlay to be Recovered in Future Years

"Capital Outlay to be recovered in future years," which represents the outstanding principal portion of unmatured long term liabilities for municipal expenditures or capital funds transferred to other organizations, is reported on the Consolidated Balance Sheet.

OR

(b) Basis of Accounting (nonaccrual)

(i) Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of principal and interest charges on long term liabilities which are charged against operations in the periods in which they are paid.

(ii), (iii) and (iv)

2. Operations of School Boards and the Region (County) of _____

Further to note 1 (a)(iii), the taxation, other revenues, expenditures and overlevies (underlevies) of the school boards and the Region (County) of _____ are comprised of the following:

	School Boards	Region (County)
	\$	\$
Taxation and User Charges	XX	XX
Grants	XX	XX
Other revenue	XX	XX
Amounts received or receivable	XX	XX
Requisitions	XX	XX
Overlevies (underlevies) for the year	XX	XX
Overlevies (underlevies) at the beginning of the year	XX	XX
Overlevies (underlevies) at the end of the of the year	XX	XX

3. Contributions to Unconsolidated Joint Boards

Further to note 1 (a)(ii) the following contributions were made by the municipality to these boards:

	19x4	19x3
	\$	\$
•	XX	XX
•	XX	XX
•	XX	XX
	XX	XX

The municipality is contingently liable for its share, which is approximately X%, of the accumulated deficits as at the end of year for these boards. The municipality's share of the accumulated surpluses (or deficits) of these joint boards is as follows:

	19x4	19x3
	\$	\$
•	XX	XX
•	XX	XX
•	XX	XX
	XX	XX

The municipality is also contingently liable for its share, which is approximately X%, of the long term liabilities issued by other municipalities for these boards. The municipality's share of these long term liabilities is as follows:

	19x4	19x3
	<u>\$</u>	<u>\$</u>
•	XX	XX
•	XX	XX
•	XX	XX
	<u>XX</u>	<u>XX</u>

4. Trust Funds

Trust funds administered by the municipality amounting to \$XXX (19x3 \$XXX) have not been included in the Consolidated Balance Sheet nor have their operations been included in the Consolidated Statement of Operations.

5. Investments

The total of investments of \$XXX (19x3 \$XXX) reported on the Consolidated Balance Sheet at cost, have a market value of \$XXX (19x3 \$XXX) at the end of the year.

6. Pension Agreements

The only version provided of the required note for pension agreements is with respect to the Ontario Municipal Employees Retirement Fund (OMERS).

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of XX members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 19x4 was \$XXX (19x3 \$XXX) for current service and is included as an expenditure on the Consolidated Statement of Operations.

Under the past service provisions of the OMERS agreement, the municipality is obligated at December 31, 19x4 for an amount of approximately \$XXX (19x3 \$XXX) as established for the plan. An amount of \$XXX (19x3 \$XXX) has been provided to date for this past service liability and is reported on the Consolidated Balance Sheet under (or no provision has been made for this liability.) The balance of this liability will be funded by (describe the payment plan.) An amount of \$XXX (19x3 \$XXX) in addition to the amount for current service has been provided for in the current year and is reported as an expenditure on the Consolidated Statement of Operations.

7. Liability for Vested Sick Leave Benefits

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the municipality's employment.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to \$XXX (19x3 \$XXX) at the end of the year. An amount of \$XXX (19x3 \$XXX) was paid to employees who left the municipality's employment during the current year.

A reserve (reserve fund) has been established to provide for this past service liability and is reported on the Consolidated Balance Sheet. The balance at the end of the year is \$XXX (19x3 \$XXX). (or . . . no provision has been made for this liability). An amount of \$XXX (19x3 \$XXX) has been provided for in the current year and is reported on the Consolidated Statement of Operations.

Anticipated payments over the next five years to employees who are eligible to retire are:

19x5	19x6	19x7	19x8	19x9	Total
\$XXX	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX

8. Net Long Term Liabilities

19x4

19x3

(a) The balance of the net long term liabilities reported on the Consolidated Balance Sheet is made up of the following:

- Total long term liabilities incurred by the municipality including those incurred on behalf of school boards, other municipalities and municipal enterprises and outstanding at the end of the year amount to \$XXX \$XXX
- In addition, the municipality has assumed responsibility for the payment of principal and interest charges on certain long term liabilities issued by other municipalities. At the end of the year, the outstanding principal amount of this liability is XXX XXX
- Of the long term liabilities shown above, the responsibility for payment of principal and interest charges has been assumed by unconsolidated local boards, municipal enterprises and utilities, and other municipalities. At the end of the year, the outstanding principal amount of this liability is (XXX) (XXX)
- Of the long term liabilities shown above, the responsibility for payment of principal and interest charges for tile drainage and shoreline property assistance loans has been assumed by individuals. At the end of the year, the outstanding principal amount of this liability is (XXX) (XXX)
- The total value of sinking funds and the balance in the Ministry of the Environment Debt Retirement Fund which have been accumulated to the end of the year to retire the outstanding long term liabilities included above, amount to .. (XXX) (XXX)
- Net long term liabilities at the end of the year \$XXX \$XXX

(b) Of the net long term liabilities reported in (a) of this note, \$XXX in principal payments are payable from 19x5 to 19x9, \$XXX from 19x0 to 19x4, and \$XXX thereafter and are summarized as follows:

	19x5 to 19x9 \$	19x0 to 19x4 \$	19x5 and thereafter \$
from general municipal revenues	XX	XX	XX
from benefitting landowners	XX	XX	XX
from consolidated municipal enterprises	XX	XX	XX
	XX	XX	XX

(c) Included in "Net long term liabilities" on the Consolidated Balance Sheet is an amount of \$XXX (19x3 \$XXX) payable in _____ (name of foreign currency), which was converted into Canadian dollars at the rate of exchange prevailing at Decem-

ber 31, 19x4. When the liability is converted into Canadian dollars at the rate of exchange prevailing when the liability was incurred, the loss (gain) on exchange is \$XXX (19x3 \$XXX).

- (d) Approval of the Ontario Municipal Board (or approval by private legislation) has been obtained for the long term liabilities in (a) issued in the name of the municipality.
- (e) The municipality is contingently liable for long term liabilities with respect to tile drainage and shoreline property assistance loans, and for those for which the responsibility for the payment of principal and interest has been assumed by other municipalities, school boards and unconsolidated local boards, municipal enterprises, and utilities. The total amount outstanding as at December 31, 19x4 is \$XXX (19x3 \$XXX) and is not recorded on the Consolidated Balance Sheet.

9. Municipal Fund Balances at the end of the year

- (a) The balances on the Consolidated Statement of Operations of municipal equity (or deficit) of \$XXX (19x3 \$XXX) at the end of the year are comprised of the following:

	19x4 \$	19x3 \$
• for general reduction (increase) of taxation	XX	XX
• for general reduction (increase) of user charges	XX	XX
• for benefitting landowners related to special charges and special areas	XX	XX
	XX	XX
• acquisition of fixed assets to be recovered through taxation or user charges	XX	XX
• acquisition of fixed assets to be financed from the proceeds of long term liabilities	XX	XX
• acquisition of fixed assets to be recovered through reserves and reserve funds	XX	XX
• funds available for the acquisition of fixed assets	XX	XX
	XX	XX
	XX	XX

- (b) Approval of the Ontario Municipal Board (or approval by private legislation) has been obtained for the pending issue(s) of long term liabilities and for those commitments to be financed from revenues beyond the term of council.
- (c) The balance available for the general reduction (increase) of taxation for the fiscal year ending December 31, 19x4 has been reduced by an amount of \$XXX (19x3 \$XXX) transferred to (from) the Reserve (name Reserve) as authorized by by-law (resolution) number _____ dated _____. Had this reduction not been made the balance would have shown a surplus (deficit) of \$XXX (19x3 \$XXX).

10. Reserves and Reserve Funds

The total balances of reserves and reserve funds of \$XXX (19x3 \$XXX) and \$XXX (19x3 \$XXX), respectively are made up of the following:

	19x3 \$	19x4 \$
Reserve funds set aside for specific purpose by council		
• for acquisition of fixed assets	XX	XX
• for recreation programs and facilities	XX	XX
• for working capital	XX	XX
	XX	XX
Total reserves	XX	XX
Reserve funds set aside for specific purpose by council		
• for acquisition of fixed assets	XX	XX
• for recreation programs and facilities	XX	XX
•	XX	XX
•	XX	XX
	XX	XX
Reserve funds set aside for specific purpose by legislation, regulation or agreement		
• for park purposes	XX	XX
•	XX	XX
•	XX	XX
	XX	XX
Total reserve funds	XX	XX

11. Charges for Net Long Term Liabilities

Total charges for the year for net long term liabilities which are reported on the Consolidated Statement of Operations are as follows:

	19x4 \$	19x3 \$
Principal payments including contributions to sinking funds and the Ministry of the Environment Debt Retirement Fund	XXX	XXX
Interest	XXX	XXX
	XXX	XXX

The charges for long term liabilities assumed by the non-consolidated entities or by individuals in the case of tile drainage and shoreline property assistance loans are not reflected in these statements.

12. Contingent Liabilities

Contingent liabilities not addressed under note 8.

13. Nonaccrual of interest on Long Term Liabilities

No provision has been made in these financial statements for the accrual of interest on the net long term liabilities. Had this provision been made the municipal fund balances as at December 31, 19x4 would have been decreased by \$XXX (19x3 \$XXX).

14. Contractual Obligation—Ministry of the Environment

In accordance with a service agreement entered into by the municipality in 19xx with the Ministry of the Environment, the existing sewage and water systems are owned and operated by the Ministry. The municipality is obligated to meet all operating costs and repay the long term liabilities related to these projects.

Included in the Consolidated Statement of Operations are the 19x4 charges from the Ministry—water \$XXX and sewage \$XXX. The Consolidated Balance Sheet does not reflect any assets or liabilities pertaining to the sewage or water systems except to the extent of service charges due to (or from) the Ministry.

Information received from the Ministry as at March 31, 19x4, indicates the following:

	Accumulated net (deficit)	19x4 debt charges	Total outstanding long term liabilities
	\$	\$	\$
Water system	XXX	XXX	XXX
Sewage system	XXX	XXX	XXX

The operating deficits and long term liabilities indicated above are not reflected in the accompanying financial statements.

15 (f) Budget figures

Two versions of the note are provided for the provision of budget figures, one where the budget figures are not comparable to the actual amounts, and one where no budget figures are provided.

Budget figures (not comparable)

Budgets established for Capital Funds, Reserves and Reserve Funds are based on a project-oriented basis, the costs of which may be carried out over one or more years. Although they are not directly comparable with current year actual amounts they have been reflected on the Consolidated Statement of Operations.

OR

Budget figures (not provided)

Budgets established for Capital Funds, Reserves and Reserve Funds are based on a project-oriented basis, the costs of which may be carried out over one or more years. As such, they are not directly comparable with current year actual amounts and budgets have therefore not been reflected on the Consolidated Statement of Operations.

15. (g) Public Liability Insurance

The only version provided of the required note for public liability insurance coverage is with respect to the extent of self insurance. No note is provided for reciprocal insurance exchanges.

Public Liability Insurance

(self insurance or partial self insurance)

The municipality is self insured for public liability claims up to \$XXX for any individual claim and \$XXX for any number of claims arising out of a single occurrence. Outside coverage is in place for claims in excess of these limits.

The municipality has made provision for a reserve fund for self insurance which as at December 31, 19x4 amounted to \$XXX (19x3 \$XXX) and is reported on the Consolidated Balance Sheet under The provision for the year of \$XXX (19x3 \$XXX) has been reported as an expenditure on the Consolidated Statement of Operations. The municipality plans to contribute to the reserve fund to an amount equal to one half of the maximum claim risk by equal provisions of \$XXX over the next five years.

Claims settled during the year amounted to \$XXX (19x3 \$XXX) have been provided for from the reserve fund, and are accordingly reported as an expenditure on the Consolidated Statement of Operations.

There were two major claims unsettled as at December 31, 19x4.

(describe)

No opinion is expressed concerning the outcome of the above claims.

**SUGGESTED WORDING TO THE REQUIRED NOTES
TO THE TRUST FUNDS FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 19x4

1. Accounting Policies

Basis of Accounting

Capital receipts and income are reported on the cash basis of accounting.

Expenditures are reported on the cash basis of accounting with the exception of administrative expenses which are reported on the accrual basis of accounting, which recognizes expenditures as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

2. Ontario Home Renewal Program

The Ontario Home Renewal Program was established by the Ontario Ministry of Housing in 1973 to provide grants for municipalities to make loans to assist owner occupants to repair, rehabilitate and improve their homes to local property standards. Individual loans are limited to \$7,500 of which the maximum forgivable portion is \$4,000.

Ontario Home Renewal Program loans receivable at December 31, 19x4 comprise repayable loans of \$XXX (19x3 \$XXX) and forgivable loans of \$XXX (19x3 \$XXX). Loan forgiveness is earned and recorded at a rate of up to \$600 per year of continued ownership and occupancy. In the event of the sale or lease of the home or in the event of the homeowner ceasing to occupy the home, the balances of the repayable loan and the unearned forgivable loan immediately become due and payable by the homeowner.

3. Investments

The total for investments by the trust funds of \$XXX (19x3 \$XXX) reported on the Balance Sheet at cost, have a market value of \$XXX (19x3 \$XXX) at the end of the year.

TRUST FUNDS
of _____
(name of municipality)

STATEMENT OF CONTINUITY

For the year ended December 31, 19x4

	Total \$	A \$	B \$	C \$
Balance at the beginning of the year	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Capital receipts (specify)	XX	XX	XX	XX
Interest earned	XX	XX	XX	XX
Other revenue	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Expenditures (specify)	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Balance at the end of the year	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>

BALANCE SHEET

as at December 31, 19x4

	Total \$	A \$	B \$	C \$
Assets				
Cash	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Investments at cost (market value \$XXX)				
Canada	XX	XX	XX	XX
Provincial	XX	XX	XX	XX
Municipal—own	XX	XX	XX	XX
—other	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Other (specify)	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
Liabilities				
Accounts payable and accrued liabilities	XX	XX	XX	XX
Other	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
	XX	XX	XX	XX
Balance—capital	XX	XX	XX	XX
—income	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>
	<u>XX</u>	<u>XX</u>	<u>XX</u>	<u>XX</u>

The accompanying notes are an integral part of this financial statement

Analysis of Current Operations
For the year ended December 31, 19x4
of _____
(name of municipality)

Schedule 1

	19x3 Actual \$	19x4 Actual \$	19x4 Budget \$	Budget Comparison Over(Under) \$
Revenue				
Taxation and user charges				
Residential and farm taxation				
Commercial, industrial and business taxation				
Taxation from other governments				
User charges				
Deduct:				
Amount received or receivable on behalf of the Region (County) and school boards	()	()	()	()
Grants				
Government of Canada				
Province of Ontario				
Other municipalities				
Other				
Contribution from developers				
Investment income				
Sale of land				
Other	_____	_____	_____	_____
Net municipal revenue	_____	_____	_____	_____
Expenditures				
General government				
Protection to persons and property				
Transportation services				
Environmental services				
Health services				
Social and family services				
Recreation and cultural services				
Planning and development				
Other	_____	_____	_____	_____
Extraordinary gains (losses)	_____	_____	_____	_____
Net appropriations (to) from other funds				
• reserves				
• reserve funds				
• capital operations	_____	_____	_____	_____
Surplus (deficit) for the year	_____	_____	_____	_____
Surplus (deficit) at the beginning of the year	_____	_____	_____	_____
Surplus (deficit) at the end of the year	=====	=====	=====	=====

Analysis of Capital Operations
For the year ended December 31, 19x4
 of _____
 (name of municipality)

Schedule 2

	19x4 Actual \$	19x3 Actual \$
Source of funds		
Long term liabilities incurred		
Ontario grants		
Other		
Appropriations from other funds		
• current operations		
• reserves		
• reserve funds		
Expenditures		
General government		
Protection to persons and property		
Transportation services		
Environmental services		
Health services		
Social and family services		
Recreation and cultural services		
Planning and development		
Other		
Unexpended capital financing (or capital operations not yet financed) at the beginning of the year		
Unexpended capital financing (or capital operations not yet financed) at the end of the year		

Analysis of Reserves and Reserve Funds
For the Year Ended December 31, 19x4
 _____ of _____
 (name of municipality)

Schedule 3

	Total	(Name of Funds)		
	\$	\$	\$	\$
Reserves				
Balance at the beginning of the year				
Appropriations from (to) Current operations				
Appropriations to reserve funds	()	()	()	()
Appropriations to capital operations	()	()	()	()
Balance at the end of the year	_____	_____	_____	_____
Reserve Funds				
Balance at the beginning of the year	_____	_____	_____	_____
Revenue				
Contributions from developers				
Interest earned				
Contributions from current operations				
Contributions from reserves	_____	_____	_____	_____
Expenditures				
Contributions to current operations				
Contributions to capital operations	_____	_____	_____	_____
Balance at the end of the year	_____	_____	_____	_____

APPENDIX A

GENERAL GOVERNMENT

Members of Council

Head of council (chairman, mayor, reeve, warden). Board of control (controllers). Council (aldermen, councillors). Ward offices. Administrative assistants, secretarial support, etc. allocated exclusively to head and members of council.

General administration

Officers and departments primarily involved in general administration and whose expenses cannot readily be allocated to any other functions (for example, chief administrative officer, clerk, treasurer). Administrative buildings. Elections. Audit. Conventions and delegations. Public receptions. Tax billing and collection costs. Restructuring studies. Interest on temporary loans. Interest charged by school boards and upper tier municipalities.

Provisions for allowance. Taxes written-off by authority of council (where no allowance has been set up). Foreign exchange losses. Discounts allowed on taxes. Discounts and other costs of debenture issues. Bank service charges. Other expenses which cannot be allocated to more specific functions.

PROTECTION TO PERSONS AND PROPERTY

Fire

Fire-fighting force (regular and volunteer). Fire hall. Alarm system.

Equipment. Hydrant rental. Auxiliary services. Fire prevention and inspection. Other fire protection expenses. Administration.

Police

Police force. Offices. Lock-ups. Equipment. Police animals. Boards of police commissioners. Conveyance of prisoners. Police communication systems. Other police protection expenditure. Garages. Administration.

Conservation Authority

Requisition of a Conservation Authority.

Protective inspection and control

Building and structural inspection. Fence viewing. Pest control. Animal control. Other by-law enforcement (where not a public health function). Weigh scales. Dog pounds. Contributions to humane societies. SPCA. Licensing commissions. Administration.

Unclassified

Emergency measures. Flood control. Flood damage repairs. Administration.

TRANSPORTATION SERVICES

Roadways

Repairs and maintenance of road surfaces, shoulders, roadsides, sidewalks and bridges. Contributions to suburban roads commission. Surface drains and ditches. Municipal portion of surface drainage projects carried out under the Drainage Act. Other drainage expenses. Administration.

Child crossing patrols. Pavement marking. Traffic signals. Traffic signs. Railway crossing signals. Guide posts, guard rails and barricades. Traffic studies. Other traffic control expenses. Other safety devices.

Winter control

Winter control as defined for grant purposes by the Ministry of Transportation.

Transit

Operations of transit commissions.

Parking

Parking control officers. Operations of parking authorities.

Street lighting

Lighting of streets, roadways, bridges, underpasses, etc.

Air transportation

Airport commissions. Landing strips and airports. Administration.

Unclassified

Docks. Harbours. Marinas. Contributions to harbour commissions.

ENVIRONMENTAL SERVICES

Sanitary sewer system

Sanitary sewers—including storm sewers only where there is a combined storm and sanitary sewer system. Public washrooms (other than those in parks or community centres). Service agreements with the Ministry of the Environment. Other sewer system expenses. Administration.

Storm sewer system

Storm sewer system where separate from sanitary sewer system. Administration.

Waterworks system

Waterworks system.

Garbage disposal

Disposal of garbage and waste (including incinerators, dumps and sanitary land fills). Administration.

Garbage collection

Collection of garbage and waste. Administration.

Pollution control

Derelict motor vehicle program. Other pollution control expenses.

HEALTH SERVICES

Public health services

Consolidated health unit costs. Contribution to district health councils. Requisition of an unconsolidated health unit. Maternal care. Child care. Venereal disease control. Communicable disease control (including immunization and vaccination). Care of indigents (medical attention out of hospital, drugs). Other public health expenses. Grants to voluntary health organizations. School dental care. Administration.

Public health inspections and control

Water, food, public eating places and other public health inspections. Disinfestation of premises. Medical care expenses. Administration.

Hospitals

Grants to public hospitals. Contributions to municipally-owned hospitals. Hospital debt met from municipal revenues.

Ambulance services

Municipally-operated ambulance services. Contributions to privately operated ambulance services. Administration.

Cemeteries

Cemetery boards. Morgues. Contributions to private cemeteries. Administration.

SOCIAL AND FAMILY SERVICES

General assistance

Aid to unemployed and unemployable persons (living allowances, care of dependents, transportation and rehabilitation). Aid to incapacitated persons (homemaking and nursing). Requisitions of district welfare boards. Aid to indigents (emergency dental treatment and burial). Other general assistance expenses. Administration.

Assistance to aged persons

Homes for the aged. Housing for elderly persons. Home care. Social and recreational activities. Other assistance to the aged. Grants to voluntary organizations assisting the aged. Grants under the Municipal Elderly Residents' Assistance Act. Administration.

Assistance to children

Requisition of Children's Aid Societies. Grants to voluntary organizations. Other assistance to children.

Day nurseries

Day nurseries. Contributions to privately operated day nurseries. Administration.

RECREATION AND CULTURAL SERVICES

Parks and recreation

Parks. Board of Parks Management. Flower gardens and floral displays. Playgrounds and amusement parks. Golf courses. Tourist camps. Community centre and halls. Skating rinks. Swimming pools. Stadiums and arenas. Other parks and recreational facilities expenses. Administration.

Exhibitions and fairs. Public celebrations. Assistance to sports teams. Grants to voluntary organizations. Community and recreation programs. Other recreation expenses. Administration.

Libraries

Library boards. Other library expenses. Contributions to regional library boards (except Metro). Administration.

Other cultural

Zoos. Theatres. Auditoriums. Concert Halls. Art galleries. Museums and archives. Historic sites. Historical studies. Historical boards. Museum boards. Grants to voluntary organizations. Administration. Contributions to ethnic groups and celebrations. Horticultural societies. Scholarships and student awards. Entities incorporated to provide cultural services. Grants to universities and colleges. Other cultural expenses.

PLANNING AND DEVELOPMENT

Planning and zoning

The official plan. The planning department. The zoning by-law. Subdivision control. Planning boards. Committees of adjustment. Urban renewal surveys and studies. Other planning and zoning expenses. Land division committees. Judges plans. Administration.

Commercial and industrial development

Industrial or development commissions and committees. Industrial parks and land assembly for commercial and industrial purposes. Grants to boards of trade and chambers of commerce. Other industrial and commercial development expenses. Tourist information and promotion. Business improvement areas. Markets. Administration.

Residential development

Public housing. Land assembly for residential purposes. Other residential developments. Housing studies. Ontario Home Renewal Program administration. Trailer parks. Non-profit housing agencies. Administration.

Agriculture and reforestation

Advancement of agriculture. Private portion of surface drainage projects carried out under the Drainage Act. Reforestation. Weed control and tree cutting. Grants to agricultural societies.

Tile drainage/shoreline assistance

Projects carried out under the Tile Drainage Act. Projects carried out under the Shoreline Property Assistance Act.

OTHER

Hydro utilities

Operating costs of hydro utilities.

Gas utilities

Operating costs of gas utilities.

Telephone commission

Operating costs of telephone commission.

Other

Specify.

APPENDIX B

CAPITAL LEASE

A capital lease is defined as a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee when, at the inception of the lease, one or more of the following considerations are present:

- (1) there is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term. **Reasonable assurance that the lessee will obtain ownership of the leased property would be present when the terms of the lease would result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option;**
- (2) the lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. **Although the lease term may not be equal to the economic life of the leased property in terms of years, the lessee would normally be expected to receive substantially all of the economic benefits to be derived from the leased property when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property.** This is due to the fact that new equipment reflecting later technology and in prime condition may be assumed to be more efficient than old equipment which has been subject to obsolescence and wear;
- (3) the lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. **This condition would exist if the present value (the discount rate used by the lessee would be the lower of the lessee's rate for incremental borrowing and the interest rate implicit in the lease, if known) at the beginning of the lease term, of the minimum lease payments, excluding any portion thereof relating to executory costs, is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease.**

In view of the fact that land normally has an indefinite useful life, it is not possible for the lessee to receive substantially all the benefits and risks associated with its ownership, unless there is reasonable assurance that ownership will pass to the lessee by the end of the lease term.

The existence of any of the following conditions by themselves is not sufficient evidence that substantially all the benefits and risks of ownership have been transferred to the lessee:

- (a) lessee pays costs incidental to ownership. **This condition is considered inappropriate because in virtually all leasing agreements the lessee will either directly or indirectly pay such costs;**
- (b) lessee has the option to purchase the asset for the lessee's unrecovered investment. **This condition is considered inappropriate because there is no assurance that the lessee will exercise the option;**

- (c) leased property is special purpose to the lessee. **This condition is considered insufficient because the concept of “special purpose” is relative and difficult to define. In addition, the fact that the leased property is special purpose does not, in itself, evidence a transfer of substantially all of the benefits and risks of asset ownership. Although it is expected that most lessors would lease special purpose property only under terms that transfer substantially all of those benefits and risks to the lessee, nothing in the nature of special purpose property necessarily entails such terms.**

MUNICIPAL FINANCIAL REPORTING HANDBOOK INTERPRETATION BULLETIN

INTRODUCTION

This interpretation bulletin has been issued in conjunction with the Municipal Financial Reporting Handbook in order to amplify and/or clarify the accounting principles and disclosure requirements.

This bulletin must be read in conjunction with the principles and the standards for financial statement presentation in the Handbook. While every effort has been made to be all inclusive, you may wish to write to the Ministry should you require clarification on any issue.

The principles in the Handbook have been developed for application by municipalities and their local boards to be used in the preparation of the annual audited financial statements and do not apply to the Financial Information Return (FIR). The FIR is governed by an independent set of guidelines issued each year by the Ministry of Municipal Affairs.

For purposes of the publication of the audited annual financial statements of the municipality to which the Handbook applies, reference should be made to the publication "Financial Disclosure to the Public—A Code for Municipalities in Ontario, 1984". The Code has not been revised to reflect the revisions to the Handbook which became effective for January 1, 1985 and thereafter. This Code endorses the principle that it is preferable to publish extracts from the financial statements rather than the financial statements themselves. The financial statements prescribed in this Handbook are those for the minimum level of disclosure in the Code.

For the financial reporting year all municipalities, including counties and regions, shall publish their annual financial reports within 60 days of receipt of their audited annual financial statements.

Your attention is also drawn to the requirements in the Code for the disclosure of the availability of the audited financial statements for those unconsolidated local boards, municipal entities, and utilities - page 7, section 2 of the Code.

The Municipal Financial Reporting Handbook makes reference to the Handbook of The Canadian Institute of Chartered Accountants (CICA) as an authoritative source of guidance on any matter in which the Municipal Financial Reporting Handbook is silent. The CICA Handbook is recommended as a valuable addition to any treasurer's library.

The CICA Handbook is generally available from the following sources:

- through the office of the municipal auditor,
- from any chartered accountant who may be on the staff of a municipality, or
- by ordering directly from:

The Canadian Institute of Chartered Accountants
150 Bloor Street West
Toronto M5S 2Y2

ACCOUNTING PRINCIPLES

1000 Standards of Disclosure

1. The principle makes the distinction between what would be of interest to the inhabitants and ratepayers of the municipality and what would affect the making of decisions.

“Significant” from the municipality’s perspective is not the same as “material” from the auditor’s perspective. The decision to disclose or not to disclose is not based on what the auditor would consider material from the standpoint of the audit opinion. Amounts considerably less than what the auditor considers material could, at the discretion of the municipal treasurer, be disclosed. This distinction becomes particularly important when the auditor also prepares the financial statements for the municipality, that is, when the auditor acts as accountant.

2. The requirement for fair presentation in the financial statements implies that some variation (or additions) to the sample statements provided in section 4000 may be appropriate; therefore, the captions shown on the pro forma statements may not be sufficient for adequate disclosure and additions or deletions may be necessary.

This flexibility allows for considerable leeway for the choice of the actual account descriptions, and for additional disclosure. For example, significant amounts for “other” items should be broken down into smaller amounts with more specific descriptions. Current operations on 4002, instead of being disclosed by function, could be disclosed by subfunction—separate line items for police and for fire rather than including both under “protection to persons and property”.

Similarly on 4002, capital expenditures may be reported by project or by function or subfunction.

Instead of reporting “net appropriations to/from reserves and reserve funds” on 4002, the total opening and closing balances and reserve funds could be reported under “Municipal Fund Balances”.

To provide line items with no amounts is inappropriate—if no long term debt was issued, do not include “proceeds from the issue of long term liabilities” on the Consolidated Statement of Operations.

For the Consolidated Statement of Operations (4002), it is also not appropriate to provide information on supporting schedules as a substitute for providing the minimum required information on the statement itself. By this we mean that the minimum requirements of the Handbook must be met by disclosures in the

- Consolidated Balance Sheet;
- Consolidated Statement of Operations; and
- Notes to the Financial Statements.

Information beyond the minimum requirements may be provided in the Consolidated Balance Sheet, the Consolidated Statement of Operations or in the Notes to the Financial Statements, or in unaudited schedules provided after the audited statements and notes. The intention was to require provision of the minimum in the Consolidated Balance Sheet, Consolidated Statement of Operations, and the Notes to the Financial Statements which, together with the auditor's report, would be a stand alone document.

For example, a supporting schedule for the continuity of reserves and reserve funds should not be provided as part of the audited annual financial statements.

Again for the Consolidated Statement of Operations, there is flexibility in the layout of the statement. For example, a statement starting with the January 1st municipal fund balances followed by sources of financing, applications, and the December 31st municipal fund balances is acceptable.

On the other hand, it is far better to provide certain information as a supporting schedule. For example, the analysis of the operations of the individual funds—revenue fund, capital fund, reserves and reserve funds—is better provided as a supporting schedule rather than as part of the audited Consolidated Statement of Operations.

It should be emphasized here, that the financial statements provided for in the Handbook are for the audited annual financial statements for the inhabitants and ratepayers. These financial statements are not meant to be a substitute for the very detailed reporting required by the council and appointed officials to effectively manage the financial affairs of the municipality. The financial statements for the inhabitants and ratepayers should be concise and easy to read and understand.

For each audited annual financial statement for the local boards of the municipality, accounting policy notes must be provided. For guidance on the notes that may be required see comments 1 and 2, page 28 of this Bulletin.

3. Throughout the Handbook and in the sample financial statements the distinction must be made between the terms "unexpended capital financing" and "unapplied capital receipts".

To clarify the use of these two terms, "unexpended capital financing" arises where, in the summation of all projects, the financing is greater than incurred costs and includes those instances where financing has not been assigned to a project.

"Unapplied capital receipts" arise where, for any individual project, the financing is greater than incurred costs or funds have not yet been assigned.

1001 Auditor's Report

1. The standard wording has been provided by The Institute of Chartered Accountants of Ontario in their letter of December 15, 1986 (see Schedule A to this bulletin). Where an unqualified opinion is provided in the auditor's report, there should be no deviation from the standard wording. The Ministry considers the wording to be mandatory and not just a guideline. As an example, there should be no reference to reserve and reserve fund financial statements in the scope paragraph. This is consistent with the comments on "flexibility" on pages 3 and 4 of this Bulletin.

2. There are three separate auditor's reports - one for the municipality's Consolidated Financial Statements, one for Trust Funds, and one for each local board including:
 - Joint Boards;
 - Public Utilities Commissions;
 - Hydro Electric Commissions;
 - Business Improvement Areas;
 - Library Boards;
 - Police Villages;
 - Parking Authorities;
 - Telephone Utilities; and
 - All other organizations deemed to be a local board.
3. Note that the auditor's report for a joint board is addressed to the board members, and the councils, inhabitants and ratepayers of the participating municipalities. A list of the participating municipalities should be provided in a note to the financial statements.
4. Where a local board (e.g. joint board) is not consolidated a separate auditor's report is required. This is not a new requirement, however it has been overlooked frequently in the past.
5. There are instances of a legislative requirement for a separate auditor's report and for separate financial statements of a local board even though it is consolidated. As examples see section 208—56(h) of the Municipal Act for parking authorities, section 217(14) of the Municipal Act for business improvement areas, and section 24(7) of the Public Libraries Act, 1984.
6. Where legislation states *only* that the accounts and transactions shall be audited, there is no requirement for separate financial statements or audit opinion thereon.
7. All auditor's reports are to be signed and include the name of the firm in typed form.

1002 Comparative Statements

1. On the Consolidated Statement of Operations, the budget column is to include the budget amounts for all consolidated local boards, and where possible for capital transactions and for the transactions of reserves and reserve funds. Where there are no such budgeted amounts, this deficiency will be apparent in the comparison of budget to actual. Material variances may require explanation in the form of comments from the head of council or the treasurer which will accompany the publication of the financial statements.
2. The budget to be used should be the budget which has been formally approved by council and which was used to determine the mill rates. Where the format of the budget differs from the financial statement format, adjustments to the budget format would be desirable in order to present proper comparisons.
3. Being realistic about the estimates for the current year, it would be inappropriate to disclose estimates on the Consolidated Statement of Operations (section 4002) unless there are annual budgets for the capital fund, reserves, and reserve funds. See page 11 of 12 of section 4003 for sample notes with respect to the disclosure of budget figures.

1003 Accounting and Reporting Capabilities

1. The disclosure requirements for the annual financial statements in this Handbook are designed to present the financial information fairly and with full disclosure. There are instances where these requirements do not meet legal provisions with respect to the maintenance of the books and records.
2. These differences are not necessarily at odds with each other. While the books and records must meet certain requirements, these requirements do not conflict with the reporting requirements. The following two examples illustrate this apparent contradiction.
 - (a) There are legal requirements to segregate certain funds from one another. While capital funds, reserve funds and revenue funds must be segregated, there is no legal requirement that they be *reported* as separate funds; accordingly, the requirement for financial reporting is to consolidate these funds.
 - (b) Certain revenues, such as payments-in-lieu of parkland dedication, may be recorded directly as revenues to a reserve fund. The books and records are required to be maintained on this basis. The principles for reserve funds and reserves state that the net increases or decreases are to be reported as appropriations to or from reserve funds and reserves; for reporting purposes there are no other charges or credits.
3. There is also the distinction between monthly financial reports to council and the audited annual financial report to the ratepayers. The Handbook addresses the latter.

1004 Basis of Accounting

1. There has always been a requirement to report revenues and expenditures of a material amount on the accrual basis with the exception of interest on long term liabilities.
2. "Available revenues" means those revenues which are received or receivable in the current period, or receivable early enough in the next period to meet liabilities related to the current period, such as grants from the Ministry of Transportation.

Provincial grant programs for roadways expenditures are on a "receipt and disbursement" basis which does not recognize accruals. Where the municipality has expended amounts in 1984 for which the road subsidy will not be received until its claim for 1984 is finalized in 1985, the amount or the best estimate of the accrual for that subsidy should be included as grants in the 1984 Consolidated Statement of Operations.

Similarly, for a 1984 expenditure which may be eligible for grants as part of its allotment for 1985 rather than for 1984, the amount or the best estimate of the accrual for the 1985 subsidy should also be included in the 1984 Consolidated Statement of Operations.

1006 Basis of Consolidation

1. The degree of consolidation is no longer optional.
2. With respect to police villages, the result of the principle on consolidation would be that the levy by special rate and the related expenditures are not consolidated in these financial statements.

A separate set of financial statements and auditor's report are required for those operations of the police village which determine the amount of its requisition on the council of the township.

3. The effective control of a joint local board is not necessarily implied simply by a municipality being the largest contributor. While it is extremely difficult to define effective control, it will likely occur where one municipality has more than fifty percent of the voting power on the Board, and can therefore, determine on its own the policy of the Board. In this instance, the joint local board should be consolidated.
4. Where a joint local board is not consolidated the requirement for separate audited financial statements is still the responsibility of the largest contributing municipality or by that municipality designated by agreement, legislation, or regulation.
5. The financial statements of a joint local board must be submitted to the Ministry by the municipality as determined under 4 above.
6. Municipally-owned telephone companies are to be consolidated. Those owned by the subscribers would not be consolidated.
7. The operations of a program, such as the Home Care Program, which are fully funded by the Province on the basis of a March 31st year-end, should not be consolidated.
8. The operations of police commissions are to be consolidated in the financial statements governed by the Handbook.
9. The consolidation principle does not apply to the financial statements of a separately elected public utility commission which includes water and hydro operations. That is, in the separate audited financial statements there will continue to be separate operating statements for the water and hydro operations. There are basically no changes from the present requirements for these statements.
10. Suburban road commissions are to be consolidated in the county's financial statements. According to the Public Transportation Act the commission is formed at the request of the county and political control over its budget appropriation is through the county.
11. There appears to be considerable confusion as to whether or not municipal non-profit housing corporations are to be consolidated.

The first determination to be made is whether or not the non-profit housing corporation is a local board of the municipality.

It is *not* necessarily precluded from being a local board because:

- it is a corporation under the Business Corporations Act;
- for all practical purposes, the municipality has little or no financial responsibility or control; or
- once the municipality has appointed the first Board of Directors, which may include members of council, changes to the Board are determined by the Board members without authority from the municipality.

Reference must be made to the letters of incorporation or agreement with the municipality.

- (i) **If it is determined to be a local board of the municipality, the Ministry has, regardless, determined that the non-profit housing corporation shall not be consolidated. Reference would be made, however, in note 1(a)(ii) and note 3 for unconsolidated entities. The auditor of the municipality would also be the auditor of the non-profit housing corporation.**
- (ii) **If it is determined not to be a local board of the municipality, it would not be consolidated nor would it be made reference to in notes 1(a)(ii) and note 3. The auditor of the municipality would not be the auditor of the non-profit housing corporation by virtue of being the auditor of the municipality.**

There are also Provincial housing authorities which are entities of the Province. These are not local boards of a municipality, and are not associated with nor to be reported as part of the municipality.

12. (i) On the Consolidated Balance Sheet, interfund assets and liabilities are eliminated *with the exception of all loans or advances (evidenced by a formal note or otherwise) between the reserve funds and other funds of the municipality.*
- (ii) Similarly, on the Consolidated Statement of Operations interfund sources of financing and applications are eliminated *with the exception of interest income and expense arising between the reserve funds and other funds of the municipality.*
- (iii) Funds are often loaned from the reserve funds to the revenue fund as part of an investment pool in order to obtain a better rate of return. In these instances it may be appropriate to eliminate the loans or advances between the funds. The loans or advances of the reserve funds would be replaced by the investments from the pool on the basis that the pool investments are firstly reserve fund investments and secondly the investments of other funds. The fact that these loans or advances are eliminated in the financial statements, in no way suggests that formalized notes for loans are not required.

2002 Inventories

1. The reporting of inventories is not mandatory, regardless of materiality. Where inventories are reported, the intention of this reporting principle is to allocate costs of goods and supplies to the period in which they are actually consumed. The items to be inventoried should only be significant in amount such as the supply of sand and salt for winter maintenance of roads; immaterial items, such as office supplies or stationery, need not be inventoried.
2. Where inventories are reported as an asset, at the end of the year in which municipal elections occur it should be noted that an illegality may arise unless certain conditions have previously been met.

This possible illegality stems from an interpretation of section 64 of the Ontario Municipal Board Act which in essence states that a municipality shall not incur any cost which is not:

- (a) provided for in the estimates of the current year; or
- (b) provided for in the estimates of a subsequent year or years within the term of the current council.

Therefore, any inventory amounts reported as an asset at year end must be financed through the current year's estimates or will be financed within the term of the council in place at the end of the reporting period. In these instances, where the asset in question has not been financed and a new term of council will occur in the next subsequent year, the municipality may have an illegal transaction. This situation may be corrected if the municipality has amounts equal to the asset in question set aside as a reserve which is reported as "Reserve for Inventory" or where a working capital reserve is at least equal to the apparent reserve required for inventories.

2003 Prepaid Expenses

1. The reporting of prepaid expenses is not mandatory, regardless of materiality.
2. Where prepaid expenses are reported, the intention of this reporting principle is to allocate costs of supplies and services to the period in which they are consumed.
3. There may be an illegality with respect to the interpretation of section 64 of the Ontario Municipal Board Act, similar to that explained in the principle for "Inventories".

2004 Capital Outlay to be Recovered in Future Years

This principle confirms the existing practice; however, there is a change in reporting requirements which is discussed under Standards for Financial Statement Presentation in section 3001 of the Handbook.

2005 Capital Outlay

The municipality should determine by a council policy what is meant by "significant expenditure". The dollar value of a significant expenditure will vary from municipality to municipality. For example, in a village the amount may be \$500 or less whereas in a city the amount may be \$2,000 or more.

2006 Capital Leases

The CICA Handbook provides numerous examples for the calculations for a capital lease. These examples are complex since, in the commercial sector, the splitting of the payment between principal and interest has an effect on the determination of income tax.

Since in municipal accounting, both the principal and interest are charged to current operations, the method of capitalizing lease payments need not be so complex.

Two examples are provided here, one in which the implicit rate of interest used by the lessor in determining the lease payment is known, and one in which the rate is not known.

The example assumes five annual payments of \$50,000 commencing on January 1, 1983 with a purchase price of \$5,000 at the end of the lease, December 31, 1987.

- A. The lessor has indicated that the implicit rate of interest used was 10%. The present value of the lease payments would be calculated as follows:

PV = first payment plus the present value of 4 payments at 10% (from PV table of \$1 received annually for n years) plus the present value of the last payment (from PV table for single payment due in n years).

$$PV = \$ 50,000 + \$ 50,000 (3.170) + \$ 5,000 (0.621)$$

$$PV = \$ 50,000 + \$158,500 + \$ 3,105$$

$$PV = \$211,605 \text{ (call it } \$211,600 \text{)}$$

On the basis of a present value of \$211,600 the following amortization table is prepared.

Date	Principal \$	Interest \$	Payment \$	Outstanding Principal \$
Jan. 1, 1983				211,600
Jan. 1, 1983	50,000		50,000	161,600
Jan. 1, 1984	33,840	16,160(1)	50,000	127,760
Jan. 1, 1985	37,224	12,776	50,000	90,536
Jan. 1, 1986	40,946	9,054	50,000	49,590
Jan. 1, 1987	45,041	4,959	50,000	4,549
Dec.31, 1987	4,549	451	5,000	Nil

(1) 10% of \$161,600 for interest for 1983.

For 1983 and including January 1, 1984, the journal entries would be as follows: (no journal entry is provided to reflect the option to accrue interest on long term liabilities)

(i) January 1, 1983

Capital outlay to be recovered in future years (asset)	211,600	
Net long term liabilities (liability)		211,600
To record the lease contract as a long term liability		

(ii) January 1, 1983

Principal (expenditure)	50,000	
Bank (asset)		50,000
To record as an expenditure of the revenue fund the first installment for the lease		

(iii) Net long term liabilities (liability)	50,000	
Capital outlay to be recovered in future years (asset)		50,000
To record the first installment as a reduction of the long term liability		

(iv) January 1, 1984

Interest (expenditure)	16,160	
Principal (expenditure)	33,840	
Bank (asset)		50,000

To record as an expenditure of the revenue fund the second installment for the lease

(v) Net long term liabilities (liability)	33,840	
Capital outlay to be recovered in future years (asset)		33,840

To record the second installment as a reduction of the long term liability

- B. Where the implicit rate of interest is not known, consideration could be given to selecting a rate which is related to the prime rate - one percentage point above prime or perhaps the Ontario Municipal Improvement Corporation rate. The approach would be the same as in A. above.

2007 Net Long Term Liabilities

This principle confirms the existing practice; however, there is a change in reporting requirements which is discussed under Standards for Financial Statement Presentation in section 3001 of the Handbook.

2008 Municipal Equity

1. Equity is the formal accounting terminology for the difference between assets and liabilities.
2. Municipal equity is represented by the balances in the various funds of the municipality.
3. In the sample financial statements provided in this Handbook, municipal equity is described as "fund balances".
4. There is a change from the existing reporting requirements, which is discussed under Standards for Financial Statement Presentation in section 3001 of the Handbook.
5. Your attention is drawn to the following two terms used in (b) of this principle:
 - unfinanced capital outlay, and
 - unexpended capital financing

Both these terms apply to the net position of all capital projects which is the summation of the two following types of projects:

- (i) those where incurred costs are greater than financing, and
- (ii) those where the financing is greater than incurred costs or those where financing has not to date been assigned to a project.

The following two simple examples illustrate these instances:

Example 1			Example 2	
Project	costs	financing	costs	financing
A	\$20,000	\$ 5,000	\$20,000	\$15,000
B	20,000	20,000	20,000	20,000
C	<u>30,000</u>	<u>35,000</u>	<u>30,000</u>	<u>50,000</u>
	70,000	60,000	70,000	85,000
Net	_____	<u>10,000</u>	<u>15,000</u>	_____
	<u>\$70,000</u>	<u>\$70,000</u>	<u>\$85,000</u>	<u>\$85,000</u>

In Example 1, the \$10,000 represents net "unfinanced capital outlay". In Example 2, the \$15,000 represents net "unexpended capital financing".

2009 Reserves and 2010 Reserve Funds

1. "Net appropriations" represents the difference between the total opening and the total closing balances of the individual reserves and reserve funds.
2. Revenues and expenditures *other than transfers to or from other funds* will be reported on the Consolidated Statement of Operations at the time they actually occur as sources of financing or applications (expenditures).
3. It is only the net of all increases and decreases that are reported on the Consolidated Statement of Operations as net appropriations to or from reserves and reserve funds.

The following example shows how this principle is to be applied:

Example

In 1983, a municipality raises \$50,000 through its general tax levy in order to establish a capital equipment replacement reserve fund. Of this amount, \$30,000 will be spent in 1983 and the balance of \$20,000 will be spent in 1984. These transactions would be reported as follows:

- (a) in 1983:
Consolidated Statement of Operations
 - the \$50,000 would be reported as a source of financing as part of "taxation and user charges".
 - the \$30,000 would be shown as applied to capital under the appropriate function.
 - the unspent balance of \$20,000 would be reflected as "net appropriations to reserves and reserve funds".

(b) in 1984:

Consolidated Statement of Operations

- the \$20,000 would be shown as a source of financing under the heading “net appropriations from reserves and reserve funds”.
- the \$20,000 spent would be shown as applied to capital under the appropriate function.

2012 Subsequent Events

For this principle to apply, the amounts must be material.

Examples of events which relate to conditions at the balance sheet date and would require both a note and an adjustment to the financial statements include:

- settlement of a legal action which was commenced prior to the balance sheet date;
- settlement of an assessment appeal which was filed prior to the balance sheet date;
- bankruptcy of a ratepayer who has outstanding business taxes; and
- settlement of an insurance claim for an event which occurred prior to the balance sheet date.

Examples of events which relate to conditions subsequent to the balance sheet date and would require a note but not an adjustment to the financial statements include:

- settlement of a legal action which was commenced after the balance sheet date;
- settlement of an assessment appeal which was filed after the balance sheet date (although it would be appropriate to set up an allowance);
- damage to or loss of municipal assets caused by a fire or flood which occurred after the balance sheet date and which is not fully recovered from insurance;
- issue of a long term liability, such as a debenture;
- decline in value of an investment;
- changes in foreign currency rates which affect the value of a municipal asset or liability; and
- change in use of property, such as a mine closing or the closing of any other industry or business in the municipality.

2020 Reporting of Revenues and Expenditures

Netting, as used in this principle, refers to the situation where revenues directly associated with an expenditure required to earn that revenue are deducted from the expenditure. This principle now requires, as an example, that revenues received from an adjoining municipality for fire services provided by the municipality should be reported separately as revenues.

2021 Reduction of Taxation Revenue

The treatment of the reduction or write-off for taxes levied in a prior period or periods as a prior period adjustment arising from a reassessment in the current period does meet the second criterion of the principle for the prior period adjustments. The “economic event” was the original levy of taxes and not the subsequent reassessment which could occur after the date of the financial statements for the period in which the original amount was levied.

STANDARDS FOR FINANCIAL STATEMENT PRESENTATION

1. The Handbook provides examples of the financial statements which are consistent with the reporting principles.
2. The Ministry regards as mandatory the provision of the reference "the accompanying notes are an integral part of this financial statement" or some equivalent on both statements.
3. Similarly, it is mandatory to include, where possible, specific note references on both statements.
4. The municipality should design its own statement format as long as it is consistent with the reporting principles in the Handbook and should provide any supporting schedules which it feels will provide additional useful information to the reader (see section 1000 on Standards of Disclosure beginning on page 2 of this Bulletin.)

3001 Consolidated Balance Sheet

1. The term "restricted assets" normally applies to the assets of reserve funds, however it may also include other types of restricted assets such as debenture proceeds received prior to the incurrence of the related capital expenditure (section 170 of the Municipal Act).
2. All loans or advances (evidenced by a formal note or otherwise) due to reserve funds from any other funds of the municipality are to be reported as a "restricted asset". The offsetting liability should be reported under the caption "temporary loans".
3. Where significant amounts have been added to the tax roll for collection purposes and are only payable to other bodies upon collection, both the asset "taxes receivable" and the offsetting liability could be eliminated. An example is hydro utility arrears added to the tax roll.
4. Where there are significant amounts added to the tax roll for collection purposes and they are not eliminated, separate disclosure under the heading "taxes receivable" would be appropriate. Similarly for significant amounts of tax registration accounts it would be appropriate to separately disclose these amounts. Elimination or separate disclosure of these items is extremely important in the determination of tax arrears percentages.
5. Distinction should be made between special charges commuted, which are reported as other liabilities, and prepaid special charges.

Special charges commuted represent the lump sum payment of contracted future payments related to the charges for a long term liability which has been issued. As the charges for the long term liability are paid, they are offset by a transfer from the "special charges commuted" account which is reported as "taxation and user charges" on the Consolidated Statement of Operations.

Prepaid special charges represent the optional lump sum payment prior to the issue of a long term liability and are therefore a source of capital financing. Prepaid special charges are reported as "other revenue" on the Consolidated Statement of Operations.

3002 Consolidated Statement of Operations

1. The Handbook, in section 4000, provides an example of a Consolidated Statement of Operations. The recommended format is provided in section 4002. Should it be desirable to provide supplementary information, refer also to sections 4006 through 4008.
2. All amounts reported in the books and records of the municipality as transfers to or from the revenue fund, the capital fund, reserves, and reserve funds are eliminated from this statement.
3. In Example 1 provided on page 20 the \$15,000 for Project A would be segregated into the following methods of future financing:
 - to be recovered from an issue of a long term liability;
 - to be recovered from taxation or user charges; or
 - to be recovered from reserves or reserve funds.

This analysis is that recommended as note 9 of "Suggested Wording to the Required Notes to the Financial Statements" in the Handbook.

4. "Other" revenue on page 2 of 5 for principle 3002 includes prepaid special charges.
 "Taxation" revenue on page 2 of 5 for principle 3002 includes the current portion of special charges commuted.

The distinction between these two terms is made in item 5 on page 25 in this Bulletin.

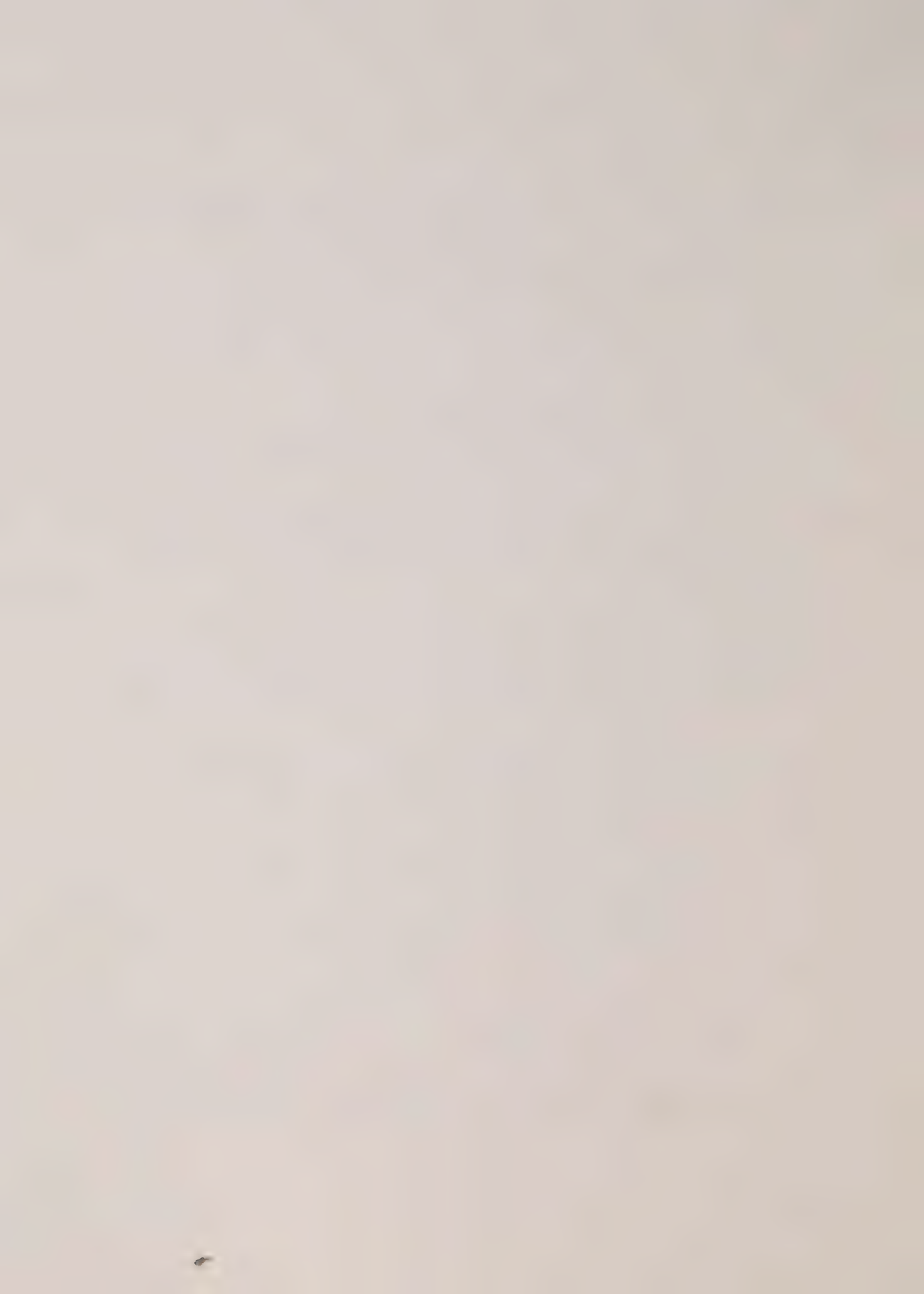
5. Drainage maintenance charges would be included under "taxation and user charges" as "residential and farm taxation". Where the amounts are significant, the general principle of "fair presentation" (Standards of Disclosure 1000) would apply and may result in a separate line item.
6. Since there is a distinction in the "source of financing" section on the Consolidated Statement of Operations between service fees and user charges, and grants involving other municipalities, the following may be of assistance in making the distinction:

Grant

- for capital cost of a project
- in the form of a donation with no direct benefit
- amount generally determined by the donor
- benefit not measurable or directly related to usage
- often voluntary in nature

Service fees and user charges

- fixed fee for a service
- fixed fee plus fee for volume or usage
- charge based on volume or usage
- charge related to service provided but determined by agreement
- variable according to a usage factor
- amount generally determined by the provider of the service (although often negotiated)
- deficit of a joint board since deficit is a reflection of usage



7. There is an option to include opening and closing reserve and reserve fund balances on the Consolidated Statement of Operations. The application of this option, which is not provided on the sample 4002 in the Handbook, would involve the following:
 - there would be no reporting of net appropriations to or from reserves and reserve funds on the Consolidated Statement of Operations;
 - “Municipal Fund Balances” would become “Fund Balances” on the Consolidated Statement of Operations;
 - notes 9 and 10 for municipal fund balances and reserves and reserve funds would become part of one note for fund balances.
8. Since the standard for financial statement presentation for the Consolidated Statement of Operations only provides for the “proceeds from the issue of long term liabilities”, the transactions for the undertaking of a capital lease (source of financing and application) will not be reported on the Consolidated Statement of Operations.

It will be reported on the Consolidated Balance Sheet.

3004/4003 Notes to the Financial Statements

1. The Ministry regards as mandatory the inclusion of the accounting policy notes provided in the Handbook regardless of the existence of such transactions.
2. The suggested wording to the required notes provided as section 4003 is not all inclusive. Accounting policy notes could be provided for such items as inventories, prepaid expenses, and investments.
3. The Handbook provides suggested wording to the required notes as a guide to emphasize minimum disclosure requirements. However, the choice of wording is flexible provided it complies with the purpose of the note.
4. For those financial statements for which a separate auditor's opinion is provided, and regardless of whether or not these are consolidated, as a minimum an accounting policy note should be provided. This requirement applies to such financial statements as those for parking authorities, business improvement areas, library boards, and trust funds.

5. **Note 1 Accounting Policies**

- (a) As a general rule, accounting policy notes should not include actual amounts.

(b) **Note 1(a) Basis of Consolidation**

- (i) For note 1(a)(i) for the Consolidated Balance Sheet and the Consolidated Statement of Operations page 1 of 12 of section 4003 with respect to interfund assets and liabilities and interfund sources of financing and expenditures, the Ministry believes that this note should be provided regardless of whether or not there are interfund accounts involved in the current year or the preceding year. Where the municipality has serious objections to this approach, there is the alternative which must include the note, but comments that there were no interfund accounts involved in the current or preceding year.

It would be an extremely rare instance where there would be no interfund transactions. Where there are capital expenditures and where there is any difference between opening and closing reserve and reserve fund balances, there are interfund transactions. These transactions occur even though they are not recorded in the books of the municipality. For example, capital expenditures out of the revenue fund involve a transfer from the revenue fund to the capital fund.

- (ii) Part (ii) must include joint local boards. Further comment on these joint local boards is provided in the note on unconsolidated joint boards.

Parts (iii) and (iv) are required, in order to convey to the reader the basis of consolidation used to compile the financial information presented in the consolidated statements. The fact that certain information is elaborated on in a specified disclosure note is not felt to be sufficient reason to delete it from this policy note.

c) **Note 1(b) Basis of Accounting**

- (a) All four parts of this note are mandatory.
- (b) For part (i) two versions of the note have been provided to recognize the accrual or the non-accrual basis of accounting.
- (c) For part (iv) with respect to "capital outlay to be recovered in future years", the Ministry believes that this note should be provided regardless of whether or not "capital outlay financed by long term liabilities and to be recovered in future years" appears on the Consolidated Balance Sheet in the current or preceding year. Where the municipality has serious objections to this approach there is also the alternative which must include the note, but comments that there is no such balance for the current or preceding year.

6. **Note 2 Operations of School Boards and the Region (County)**

- (a) This note is required for all lower tier municipalities.

- (b) Taxation and user charges also includes supplementary taxes, taxation from other governments, and telephone and telegraph taxation under section 161 of the Municipal Act less total write-offs recoverable from school boards and Region (County). Requisitions include supplementary taxes less total write-offs recoverable from school boards and Region (County).

7. Note 3 Contributions to Unconsolidated Joint Boards

There may be some difficulty in obtaining the amounts for accumulated surpluses or deficits of unconsolidated joint boards, where the board is administered by another municipality and the financial statements are not yet available. In these instances the amounts reported here should be the best estimate available, rather than holding up completion of the financial statements of those municipalities which are not responsible for the financial statements of the joint board. It would be useful in these instances if the note indicated that the amounts are estimates because the audited financial statements are not available.

8. Note 4 Trust Funds

The amounts shown in this note are to be the opening and closing balances as shown on the Statement of Continuity.

9. Note 6 Pension Agreements

- (a) This note is in response to the new requirements of section 3460 of the CICA (The Canadian Institute of Chartered Accountants) Handbook. The requirements of this note are more than just the minimum as required by the CICA Handbook.
- (b) There are three general types of notes which may be required:
 - (i) for OMERS (the Ontario Municipal Employees Retirement Fund) which applies to most of the municipalities in Ontario, suggested wording for the required note is provided in section 4003;
 - (ii) for plans other than OMERS, which only affect a handful of municipalities, no suggested wording has been provided. The requirements are provided in section 3004;
 - (iii) the municipalities in (ii) above may also require a note for OMERS.

10. Note 8 Net Long Term Liabilities

- (a) The analysis as illustrated is required even though the balance may be zero. This is to ensure that the reader is made aware of the full amount of debt issued in the name of the municipality and for which the municipality remains contingently liable, even though all this debt has been assumed by others.

- (b) The reference to OMB approval provides the reader with the assurance of the legal compliance for all debt issued. There is the option to delete the requirement to disclose OMB approval on long term debt issued in the name of the municipality (Note 8(d) on page 7 of 12 of section 4003). It will be presumed that the OMB approval has been obtained; if not, a note should be provided. Note 9(b) on page 8 of 12 of section 4003 for unfinanced capital outlay is still mandatory.

11. Note 9 Municipal Fund Balances at the end of the Year

- (a) The note analysing the fund balances could be broken down further so as to identify amounts with specific user charges or local boards.
- (b) The reference to OMB approval is a mandatory requirement to provide assurance to the reader of the legal compliance for the pending issues of long term liabilities or for those commitments of a future council.
- (c) Disclosure is required of the transfer of the whole or part of the year-end balance available for the general reduction (increase) of taxation to or from a reserve for the purpose of reducing a surplus or deficit.

The note should also show the by-law or resolution number and date authorizing the transfer.

The balance should be restated to reflect the surplus or deficit prior to the transfer.

12. Note 13 Nonaccrual of Interest

- (a) This note is required in all cases where the municipality reports net long term liabilities on the Consolidated Balance Sheet and has not adopted full accrual accounting. The note provides the reader with the impact on the equity position of the municipality caused by council's decision to not adopt full accrual accounting.
- (b) Rather than providing the actual amount if it is relatively small, the note will state that the amount was not significant in relationship to the total municipal fund balances at the end of the year on the Consolidated Statement of Operations.

13. Note 14 Contractual Obligation—Ministry of the Environment

A variation would be required where the agreement was only for water or only for sewers.

A variation would also be required where sewer and/or water services are provided by a separately elected public utilities commission.

- (i) A note 14 would be provided to the financial statements of the PUC with some revisions to the first and second paragraphs.
 - In the first paragraph, the municipality would be named; there would be no reference to sewage unless it was specifically delegated to the PUC; and reference would be made that the MOE charges are recoverable through the rates levied by the PUC, although the agreement is between the municipality and MOE.
 - In the second paragraph, the proper name of the PUC operating statement would be provided and there would be no reference to sewage charges unless sewage was specifically delegated to the PUC.

For the municipality, a note 14 would be provided with some revisions to the first and second paragraphs.

- In the first paragraph, reference would be made that the water charges are recoverable through rates levied by the PUC. There would be similar reference to sewage where sewage was specifically delegated to the PUC.
- In the second paragraph, reference to sewage and/or water would be deleted depending on the services delegated to the PUC.

14 Note 16 Public Liability Insurance

- (a) The note is not required where there is coverage through an insurance company unless the deductible is abnormally high.
- (b) Since the disclosure of public liability insurance coverage is new for 1987, the suggested wording to the required notes is just that "suggested." Since there are so many possible variations for the coverage, there is no one suggested note which will fit all circumstances.
- (c) No disclosure of the deductibility amounts is required, if these amounts are within the norms for insurance coverage for municipalities in Ontario.

3005/4004 Notes to the Financial Statements for Trust Funds

1. For guides to the notes that may be required and the suggested wording for those notes, review the notes for the audited annual consolidated financial statements of the municipality (4003), page 73 of the publication "Financial Disclosure to the Public, A Code for Municipalities in Ontario 1984", and pages 28 to 35 of this bulletin.
2. For example, the accounting policy notes could include a preamble similar to that provided in 4003.
3. Sample trust fund notes for accounting policies, the Ontario Home Renewal Program, and investments have been provided in 4004. A specific note is not required if the information is provided on the face of the financial statements.
4. Where there are two or more individual trust funds, the respective trust indentures may specify accounting policies which are different from each other. A separate accounting policy note for each trust fund may be required

**MUNICIPAL FINANCIAL REPORTING HANDBOOK
INTERPRETATION BULLETIN
SCHEDULE A**

Local Governments

To the Members of Council, Inhabitants and Ratepayers of the Corporation of
the _____ of _____.

I have examined the consolidated balance sheet of the Corporation of the
_____ of _____ as at December 31, 19 ____ and the
consolidated statement of operations for the year then ended. My examination was made in
accordance with generally accepted auditing standards, and accordingly included such tests and
other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the
(city, village, etc.) as at December 31, 19 ____ and the results of its operations for the year then
ended in accordance with the accounting principles disclosed in note 1 to the financial statements
applied on a basis consistent with that of the preceding year.

(signed) _____
Chartered Accountant

City

Date

Local Government Trust Funds

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the _____ of _____.

I have examined the balance sheet of the trust funds of the Corporation of the _____ of _____ as at December 31, 19 ____ and the statement of continuity of trust funds for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the trust funds for the (city, village, etc.) as at December 31, 19 _____ and the continuity of trust funds for the year then ended in accordance with the accounting principles disclosed in note 1 to the financial statements applied on a basis consistent with that of the preceding year.⁽¹⁾

(signed) _____
Chartered Accountant

City

Date

- (1) Auditors may refer to generally accepted accounting principles when all accounting principles followed agree with the Recommendations in the CICA Handbook.

Local Boards and Commissions (1), Hydro Electric Utilities and Conservation Authorities

To the Board Members⁽²⁾, Members of Council, Inhabitants and Ratepayers of the Corporation of the _____ of _____.

for joint boards

To the Board Members⁽²⁾, Members of Council(s), Inhabitants and Ratepayers of the participating municipalities as listed in note (x)

for hydro electric utilities

To the Commissioners, Members of Council, Inhabitants and Ratepayers of the Corporation of the _____ of _____.

for conservation authorities

To the Members of the _____ Conservation Authority

I have examined the (name of the statement) of the _____ as at December 31, 19 ____ and the (name of statement(s)) for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the _____ as at December 31, 19 ____ and the results of its operations for the year then ended in accordance with the accounting principles disclosed in note 1 to the financial statements applied on a basis consistent with that of the preceding year.

(signed) _____
Chartered Accountant

City

Date

(1) Includes:

Joint Boards and Commissions	Police Villages
Public Utility Commissions	Parking Authorities
Business Improvement Areas	Telephone Utilities
Library Boards	
All other organizations deemed to be a local board	

(2) Or other suitable title, such as Commissioners for public utility commissions.

Subject	Reference
Accounting policies	
disclose failure to comply with	1000
note required for changes in	1005
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